

Annual Governance Report

September 2006

AC 16 06/07



# Annual governance report

**Plymouth City Council**

**Audit 2005/06**

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

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Council**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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## Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work. For the purposes of this report, the Council's Audit Committee is considered to fulfil the role of those charged with governance and references to the Audit Committee should be read as such.
- 2 We are also required by professional auditing standards to report to the Audit Committee certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Council for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principal purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Audit Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Audit Committee with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Council's financial statements; and
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The annual governance report summarises the significant findings, conclusions and recommendations arising from our audit work. The results of our inspection work, and our separate grant claims' certification programme, will be reported in the Relationship Manager Letter later in the year.

- 8** We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 9 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by 30 September 2006 (a draft report is attached at Appendix 5).
- 10 Should any further matters that need to be reported arise in concluding the outstanding work, we will raise them with the Chair of the Audit Committee.

### Use of resources

- 11 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete, subject to moderation. We anticipate being able to issue an unqualified conclusion on the use of resources by 30 September 2006 (a draft report is attached at Appendix 5).

## Financial statements

- 12 We are required to give an opinion on whether the Council's financial statements present fairly the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

### Status of the audit

- 13 Our work on the financial statements is now substantially complete.

### Matters to be reported to the Audit Committee

- 14 We have the following matters to draw to the Committee's attention.

#### Expected modifications to the auditor's report

- 15 On the basis of our audit work we currently propose to issue an unqualified audit report. A draft audit report is attached at Appendix 5.

#### Uncorrected misstatements

- 16 The financial statements have been adjusted for all material misstatements identified by the audit.
- 17 We identified the following misstatements in the financial statements that management has decided not to adjust. Excluding those misstatements that are 'clearly trivial' (as defined in professional auditing standards), these are set out in Table 1 below.

**Table 1      Uncorrected misstatements**

Misstatements that management have decided not to adjust

| Issues   | Value of misstatement<br>£ | Impact on surplus<br>£ |
|--|----------------------------|------------------------|
| <p><b>Section 106 receipts incorrectly classified</b><br/>£4.256m Section 106 receipts under the Town and County Planning Act 1990 have been incorrectly classified in the "financed by" section of the balance sheet.</p> <p>The correct treatment depends on whether the contributions relate to capital or revenue projects and relies on the Council matching the capital receipts with capital expenditure.</p> | £4,256,000                 | Nil                    |

| Issues   | Value of misstatement<br>£ | Impact on surplus<br>£ |
|--|----------------------------|------------------------|
| <p><b>Capital commitments misclassification</b></p> <p>The capital commitments disclosure includes £1.5m comprising:</p> <ul style="list-style-type: none"> <li>• an anticipated payment of £0.8m in respect of a contractor's claim; and</li> <li>• £0.7m representing the final payments in relation to the scheme.</li> </ul> <p>The scheme was completed in February 2006 so the Council should have shown</p> <ul style="list-style-type: none"> <li>• £0.8m as either a provision or contingent liability; and</li> <li>• £0.7m accrual in relation to the outstanding costs.</li> </ul>   | £1,500,000                 | Nil                    |
| <p><b>Lender Option, Borrower Option loans (LOBOs) – Non compliance with SORP</b></p> <p>The Council are accounting only for interest paid and not for interest payable on LOBO stepped loans, which is required by the SORP (as reported in 2004/05).</p>   | £977,000                   | £977,000 decrease      |
| <p><b>Writing-out capital expenditure</b></p> <p>The Council reviews its capital spending annually and assesses in each case whether it has added value. Any expenditure deemed not to add value is removed from the fixed asset balance. During 2005/06 £18m of capital expenditure was written-out in this way. However, the SORP permits only the difference between the expenditure and the increase in asset value to be written-off.</p> <p>While the Council values its assets every five years - and its housing stock annually - in accordance with CIPFA guidance, there is inevitably a delay between incurring expenditure and valuing the assets.</p> <p>It is impossible to assess whether the write-out of expenditure is overstated until the asset is revalued. The Council should therefore ensure that it fully complies with requirements of the SORP by showing expenditure incurred in the year and writing it out only after asset re-valuation has been carried out.</p> | Not known                  | Nil                    |

| <b>Issues</b>  | <b>Value of misstatement<br/>£</b> | <b>Impact on surplus<br/>£</b> |
|--|------------------------------------|--------------------------------|
| <p><b>Group accounts – cash flow statement</b><br/>The group cash flow statement has been created by making adjustments to the Council's cash flow. This does not accord with CIPFA guidance. Statements should be obtained from all of the Council's subsidiaries to produce the group cash flow statement.</p> | None known                         | Nil                            |
| <p><b>Value of Pension Fund Assets</b><br/>The county pension fund's actuary has prepared the pension liability estimate on a projected value of pension fund assets. If actual asset values had been used the pension liability would have been reduced.</p>  | £1,203,518                         | Nil                            |

### Adjusted misstatements

- 18 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material.
- 19 We draw your attention to the following adjustment made following the audit:

### Table 2 Adjusted misstatements in the financial statements

Details of material and/or significant adjustments made to the financial statements

| <b>Issue</b>  | <b>Value of misstatement<br/>£</b>  | <b>Impact on surplus</b> |
|---|---|--------------------------|
| <p><b>Tamar Bridge consolidation</b><br/>The Tamar Bridge and Torpoint Ferry Joint Committee had been correctly excluded from the main financial statements but should have been consolidated into the Council's group accounts as a joint venture. Management have now corrected this.</p> | <p>Maximum of<br/>£119,634,000<br/>(Group Balance Sheet)</p> <p>Maximum of<br/>£4,210,000<br/>(Group CRA)</p> | Nil                      |

## **Qualitative aspects of accounting practices and financial reporting**

- 20 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.
- 21 There are no matters of this nature that we wish to bring to the attention of the Audit Committee.

## **Material weaknesses in internal control identified during the audit**

- 22 Our audit identified no material weaknesses in the Council's systems of accounting and financial control. We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.

## **Matters specifically required by other auditing standards**

- 23 Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 24 There is only one matter of the latter nature that we would note for the information of the Audit Committee:
  - Pension Fund Accounting Treatment - The accounting approach and disclosure of the effect of the commutation arising from pension scheme changes adopted by the county pension fund actuary does not follow Local Authority Accounting Panel (LAAP) Guidance. However, the accounting approach taken does not impact on the overall value of the FRS17 liabilities at 31 March 2006.

## Any other matters of governance interest

- 25 Finally, we are required to report any other matters that we believe to be of governance interest. We report these matters in Table 1 below.

**Table 3 Other matters of governance interest**

| Area   | Auditor responsibility   | Impact  |
|--|--|---|
| Statement of internal control (SIC)              | The auditor reviews the SIC for compliance with the requirements of proper practice as specified by CIPFA and consistency with other information from the audit of the financial statements. | We have reviewed the SIC as part of the audit of the financial statements and confirmed that it is consistent with our knowledge. |
| Whole of Government Accounts' consolidation pack | The auditor is responsible for issuing a report on the consistency of the Council's consolidation pack with the statutory financial statements.  | We are required to submit an audited return by 6 October 2006.  |

## Letter of representation

- 26 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

## Next steps

- 27 We are drawing these matters to the Audit Committee's attention so that:
- you can consider them before the financial statements are re-approved and certified;
  - the representation letter can be signed on behalf of the Council and those charged with governance before we issue our opinion on the financial statements; and
  - the Committee has the opportunity to amend the financial statements for the unadjusted misstatements identified above. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements to which it relates, either in the body of the letter or in a document appended to it.

## Use of resources

### Value for money conclusion

- 28** The Code requires us to issue reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of your resources (the value for money conclusion). In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our work on the use of resources assessment. The use of resources assessment is a qualitative assessment of the effectiveness of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. The five areas we make assessments on are; financial statements, financial management, financial standing, internal control and value for money.
- 29** The five areas we make assessments on are:
- financial reporting;
  - financial management;
  - financial standing;
  - internal control; and
  - value for money.
- 30** We have completed our work in relation to the use of resources, subject to moderation, and we currently propose to issue a report including an unqualified value for money conclusion.

## Use of auditors' statutory powers

- 31 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

**Table 4 Use of statutory powers**

| <b>Issue</b>               | <b>Auditor responsibility</b>  | <b>Impact</b>  |
|----------------------------|--|--|
| Section 8 reports          | Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public. | There have been no section 8 reports in respect of the financial year 2005/2006.   |
| Section 11 recommendations | To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.   | There have been no s11 recommendations.  |
| Best value                 | To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.                        | Our work in respect of the Council's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State. |

## Closing remarks

- 32 This report has been discussed and agreed with the Director of Corporate Resources. A copy of the report will be presented at the Audit Committee on 25 September 2006.
- 33 The Council has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

**Peter Lawrence**  
**District Auditor**

September 2006

# Appendix 1 – Audit responsibilities and approach

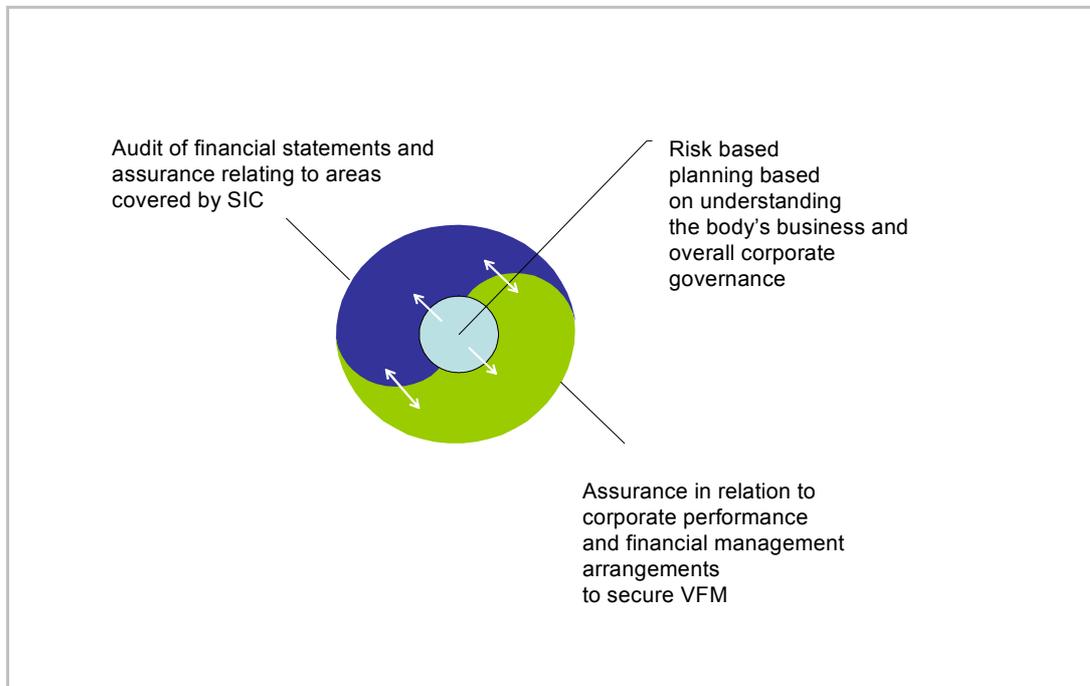
## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

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### Figure 1 Code of Audit Practice

Code of practice responsibilities



## **Approach to the audit of the financial statements**

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Council which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.

## **Approach to audit of arrangements to secure value for money**

- 4 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 5 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.

- 6 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 7 The potential sources of assurance when reaching the value for money conclusion include:
  - the Council's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 5**

| Planned output                  | Planned date of issue     | Actual date of issue                           | Addressee   |
|---------------------------------|---------------------------|--|-------------|
| Audit and inspection plan       | March 2005                | March 2005                                     | The Council |
| Interim audit memorandum        | May 2006                  | Incorporated in the final accounts memorandum. | Management  |
| BVPP report                     | Before 31st December 2005 | 23 December 2005                               | The Council |
| Use of resources assessments    | December 2005             | December 2005                                  | Management  |
| Final accounts memorandum       | October 2006              | October 2006                                   | Management  |
| Opinion on financial statements | September 2006            | September 2006                                 | The Council |
| Value for money conclusion      | September 2006            | September 2006                                 | The Council |
| Relationship Manager Letter     | March 2007                | March 2007                                     | The Council |
| Performance Reports             |                           |  |             |
| Overview & Scrutiny             | July 2005                 | July 2005 *                                    | Management  |
| Planning school places          | July 2005                 | July 2005 *                                    | Management  |
| Performance Management          | January 2006              | January 2006 *                                 | Management  |
| HR Review                       | January 2006              | January 2006 *                                 | Management  |
| Partnerships                    | March 2006                | March 2006 *                                   | Management  |
| Procurement                     | March 2006                | March 2006 *                                   | Management  |

\* Reported to Audit Committee or Scrutiny Panel

## Appendix 3 – Fee information

**Table 6**

| <b>Fee estimate</b>       | <b>Plan 2005/06</b> | <b>Actual 2005/06</b> |
|---------------------------|---------------------|-----------------------|
| <b>Audit</b>              |                     |                       |
| Accounts                  | £195,000            | £195,000              |
| Use of resources          | £164,000            | £164,000              |
| Inspection                | £52,000             | £52,000               |
| <b>Total audit fees**</b> | <b>£411,000</b>     | <b>£411,000</b>       |

\*\* The outturn on grant certification fees will be reported in the Relationship Manager Letter

## **Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity**

- 8** We are required by the standard to communicate following matters to the Audit Committee:
- the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 9** We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

## Appendix 5 – Independent auditor's report to Plymouth City Council

### Opinion on the financial statements

I have audited the financial statements of Plymouth City Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Group Consolidated Revenue Account and Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Plymouth City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

Peter Lawrence, District Auditor  
The Audit Commission  
Units 3 - 6, Blenheim Court,  
Matford Business Park,  
Lustleigh Close, Exeter,  
EX2 8PW  
[DATE]

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Council’s Responsibilities**

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

Under the Local Government Act 1999, the council is required to prepare and publish a best value performance plan summarising the council’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the council’s best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Plymouth City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

### **Best Value Performance Plan**

I issued my statutory report on the audit of the council’s best value performance plan for the financial year 2005/06 on 23 December 2005. I did not identify any matters to be reported to the council and did not make any recommendations on procedures in relation to the plan.

### **Certificate**

I certify that I have completed the audit of accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission. The audit cannot be formally concluded and an audit certificate issued until issues raised by electors, in exercise of their right under section 15 of the Audit Commission Act 1998, have been resolved. We are satisfied that these issues will not have a material effect on the statement of accounts.

Peter Lawrence,  
District Auditor  
The Audit Commission  
Units 3 - 6, Blenheim Court,  
Matford Business Park,  
Lustleigh Close, Exeter,  
EX2 8PW  
[DATE]

## Appendix 6 – Letter of representation (prior to ISA260 response)

Peter Lawrence, District Auditor  
The Audit Commission  
Units 3 - 6, Blenheim Court,  
Matford Business Park,  
Lustleigh Close,  
Exeter,  
EX2 8PW

Dear Peter

### **Plymouth City Council - Audit for the year ended 31 March 2006**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Plymouth City Council, that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2006, can be properly provided.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly the financial position of the Council and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

### **Group entities**

I confirm that, in all material aspects, the group financial statements have been prepared in accordance with CIPFA's guidance: Group Accounts in Local Authorities Practitioners' Workbook.

### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

**Plymouth City Council**

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;

No financial guarantees have been given to third parties.

### **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error. There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

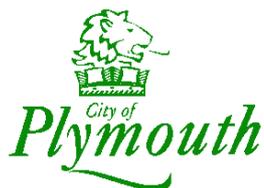
### **Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Plymouth City Council

Signed.....

A Broome, Director of Corporate resources



## CORPORATE RESOURCES DEPARTMENT

Plymouth City Council  
Civic Centre  
Plymouth  
PL1 2AA

Tel: (01752) 304940  
Fax: (01752) 304923  
Email: [adam.broome@plymouth.gov.uk](mailto:adam.broome@plymouth.gov.uk)  
[www.plymouth.gov.uk](http://www.plymouth.gov.uk)

Date: 22<sup>nd</sup> September 2006

□ Peter Lawrence, District Auditor □  
The Audit Commission  
Units 3 - 6, Blenheim Court,  
Matford Business Park,  
Lustleigh Close,  
Exeter,  
EX2 8PW

When calling or telephoning please ask for: **Adam Broome**

My Ref: AB/SW

Your Ref:

Dear Peter

### **Plymouth City Council - Audit for the year ended 31 March 2006**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Plymouth City Council, that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2006, can be properly provided.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements, which present fairly the financial position of the Council and for making accurate representations to you.

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in Appendix A to this letter are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

- Section 106 receipts incorrectly classified – Agreed with Audit Commission that as there would be no overall impact on the council's financial position no adjustment will be made to the 2005-06 accounts, but the accounting treatment will be reviewed for 2006-07
- Capital commitments misclassification – Agreed with Audit Commission that this could have been treated differently in the accounts but as this is not material, no adjustment will be made to the 2005-06 accounts
- Lender Option, Borrower Option Loans (LOBOs) non-compliance with SORP – The Council continues to believe that the treatment of interest on LOBO loans is in line with the SORP and in the absence of formal guidance in the form of a Financial Reporting Standard (FRS) does not believe an adjustment to the accounts is warranted
- Writing-out capital expenditure – The application of the SORP and the accounting treatment in the accounts will be reviewed for 2006-07
- Group accounts cash flow statement – The Council will provide a schedule of information required from our group entities in order to produce the consolidated group accounts and this will include a cash flow statement

- Value of pension fund assets - The pension net liability figure is reliant on accounting estimates in respect of liabilities, and the effect of the inherent uncertainty in assumptions made outweighs any potential misstatement in the context of assets. Given the nature and size of FRS 17 entries, the risk that an uncertainty derived from this difference could reasonably influence the view of a user of the accounts is low. We have therefore agreed with the Audit Commission that no amendment will be made in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

### **Group entities**

I confirm that, in all material aspects, the group financial statements have been prepared in accordance with CIPFA's guidance: Group Accounts in Local Authorities Practitioners' Workbook.

### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties with the exception of the PLUSS organisation (disclosed as a contingent liability in the statements).

### **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error. To the best of my knowledge there have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;

- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

**Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Plymouth City Council

Signed .....

Adam Broome, Director of Corporate Resources

**Table 1      Uncorrected misstatements**

Misstatements that management have decided not to adjust

| <b>Issues</b>  | <b>Value of misstatement<br/>£</b> | <b>Impact on surplus<br/>£</b> |
|--|------------------------------------|--------------------------------|
| <p><b>Section 106 receipts incorrectly classified</b></p> <p>£4.256m Section 106 receipts under the Town and County Planning Act 1990 have been incorrectly classified in the "financed by" section of the balance sheet.</p> <p>The correct treatment depends on whether the contributions relate to capital or revenue projects and relies on the Council matching the capital receipts with capital expenditure.</p>  | £4,256,000                         | Nil                            |
| <p><b>Capital commitments misclassification</b></p> <p>The capital commitments disclosure includes £1.5m comprising:</p> <ul style="list-style-type: none"> <li>• an anticipated payment of £0.8m in respect of a contractor's claim; and</li> <li>• £0.7m representing the final payments in relation to the scheme.</li> </ul> <p>The scheme was completed in February 2006 so the Council should have shown</p> <ul style="list-style-type: none"> <li>• £0.8m as either a provision or contingent liability; and</li> <li>• £0.7m accrual in relation to the outstanding costs.</li> </ul> | £1,500,000                         | Nil                            |
| <p><b>Lender Option, Borrower Option loans (LOBOs) – Non compliance with SORP</b></p> <p>As reported in 2004/05, the Council are accounting only for interest paid and not for interest payable on LOBO stepped loans, as required by the SORP.</p>  | £977,000                           | £977,000 decrease              |
| <p><b>Writing-out capital expenditure</b></p> <p>The Council reviews its capital spending annually and assesses in each case whether it has added value. Any expenditure deemed not to add value is removed from the fixed asset balance. During 2005/06 £18m of capital expenditure was written-out in this way. However, the SORP permits only the difference between the expenditure and the increase in asset value to be written-off.</p> <p>While the Council values its assets every five</p>   | Not known                          | Nil                            |

| <b>Issues</b>  | <b>Value of misstatement<br/>£</b> | <b>Impact on surplus<br/>£</b> |
|--|------------------------------------|--------------------------------|
| <p>years - and its housing stock annually - in accordance with CIPFA guidance, there is inevitably a delay between incurring expenditure and valuing the assets.</p> <p>It is impossible to assess whether the write-out of expenditure is overstated until the asset is revalued. The Council should therefore ensure that it fully complies with requirements of the SORP by showing expenditure incurred in the year and writing it out only after asset re-valuation has been carried out.</p> |                                    |                                |
| <p><b>Group accounts – cash flow statement</b></p> <p>The group cash flow statement has been created by making adjustments to the Council's cash flow. This does not accord with CIPFA guidance. Statements should be obtained from all of the Council's subsidiaries to produce the group cash flow statement.</p>  | None known                         | Nil                            |
| <p><b>Value of Pension Fund Assets</b></p> <p>The county pension fund's actuary has prepared the pension liability estimate on a projected value of pension fund assets. If actual asset values had been used the pension liability would have been reduced.</p>   | £1,203,518                         | Nil                            |

## CITY OF PLYMOUTH

**Subject:** Plymouth's Response to Audit Commission Annual Governance Report (ISA 260) re 2005/06 Accounts

**Committee:** Audit Committee

**Date:** 25 September 2006

**Cabinet Member:** Deputy Leader

**CMT Member:** Director of Corporate Resources

**Author:** Sandra Wilson - AHOF (Corporate Accountancy)

**Contact:** 01752 304942  
sandra.wilson@plymouth.gov.uk

**Ref:** ACCT/SW

**Part:** I

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### **Executive Summary:**

The Council's 2005/06 Statement of Accounts was approved by Audit Committee on 30 June 2006, subject to audit of the accounts by the Audit Commission. Following conclusion of the audit, the auditor is required under its statutory Code of Audit practice for Local Government bodies to issue a report to those charged with governance of Plymouth City Council (in our case Audit Committee) summarising the conclusions from their audit work.

This report summarises the response to issues raised by the auditor in his report, identifying and explaining those items, which the Director of Corporate Resources does not intend to adjust in the accounts for 2005/06, as well the one adjustment that has been made.

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### **Corporate Plan 2006-2009:**

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

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

To amend the accounts in line with audit suggestions could have reduced the working balance by £0.977m.

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

None.

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**Recommendations and Reasons for recommended action:**

It is recommended that the comments above be noted by the Committee and that the letter of representation on the 2005/06 accounts be approved.

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

To amend the accounts in line with the audit schedule of misstatements. This has been rejected for the reasons set out in the report

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**Background papers:**

Statement of Accounts 2005/06

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**Sign off:**

|                                     |           |             |    |            |  |            |  |            |  |                    |  |
|-------------------------------------|-----------|-------------|----|------------|--|------------|--|------------|--|--------------------|--|
| Head of Fin                         | <b>AB</b> | Head of Leg | DS | Head of HR |  | Head of AM |  | Head of IT |  | Head of Strat Proc |  |
| Originating CMF Member. Adam Broome |           |             |    |            |  |            |  |            |  |                    |  |

## **Plymouth's Response to Audit Commission Annual Governance Report (ISA 260) re 2005/06 Accounts**

### **1. Introduction**

- 1.1 The Council's 2005/06 Statement of Accounts was approved by Audit Committee on 30 June 2006, subject to audit of the accounts by the Audit Commission. Following Conclusion of the audit, the auditor is required under its statutory Code of Audit practice for Local Government bodies to issue a report to those charged with governance of Plymouth City Council (in our case Audit Committee) summarising the conclusions from their audit work.
- 1.2 The report following the 2005/06 audit of accounts is being presented to Audit Committee today, 25 September 2006. During the course of the audit, the auditors raised a number of issues for which, following discussion between PCC Officers and the Audit staff, the Council has decided not to make an adjustment to the accounts. These have been incorporated within the Annual Governance report as uncorrected misstatements.
- 1.3 The purpose of this report is to provide Members with further information around these issues, prior to the Director of Corporate Resources issuing the formal Statement of Representation to the Audit Commission.

### **2. ISA260 Report**

- 2.1 The following issues have been raised by the auditor in his report as uncorrected misstatements:
- (a) Section 106 receipts incorrectly classified.

The City Council has treated Section 106 receipts received but yet to be applied to specific expenditure, as a reserve on the Consolidated Balance Sheet. This treatment is consistent with the treatment applied in previous years, and which has not been previously raised as an audit issue.

The Council accepts however that the treatment of these receipts is not in accordance with the Statement of Recommended Practice (SORP), which requires different accounting treatment depending on whether the receipts are used to finance revenue or capital expenditure. To make these corrections to the 2005/06 statements would require substantial work and analysis. In view of the fact that there is no impact on the Council's overall financial position for the year, the Director of Corporate Resources has decided not to amend the 2005/06 accounts but to review the treatment for the 2006/07 accounts. This will form part of an ongoing review of Section 106 issues across the Council.

(b) Capital Commitments misclassification

The consolidated balance sheet includes a note (note 19, page 63) of capital commitments outstanding on capital and other works contracts. The auditor has identified a commitment of £1.5m disclosed in this note which in his view has been incorrectly treated in the accounts. The Director of Corporate Resources has been advised that the contractor submitted costs and compensation events late in the contract for major changes under the contract following a change in standards by the Environment Agency. The size of the costs and the responsibility for drainage design under the contract caused us to question very closely entitlement and final payment has now been agreed following a rigorous process with external QS check and legal advice. At no stage was there any question a payment would have to be made for the additional works, the issue was around the value of the payment. The Director of Corporate Resources agrees that an accrual should have been made for the outstanding costs of £0.7m and a contingent liability could have been made for the compensation costs. However as we have disclosed the payments as a capital commitment, it is not proposed to make an adjustment to the accounts for 2005/06.

(c) Lender Option Borrower Option (LOBO)

This issue was raised by the auditor in 2004/05 and highlighted by the Director of Corporate Resources in his report presenting the 2005/06 accounts for approval to Audit Committee on 30 June. The issue raised again this year remains over the auditor's view that the council has incorrectly treated the interest payable on these loans by charging only the applicable preferential lower rate interest to the accounts rather than averaging the interest payable over a longer period (10 years).

- (1) The Director of Corporate Resources continues to maintain that in the absence of formal Guidance in the form of a Financial Reporting Standard (FRS) that there should be no change to accounting treatment.
- (2) All of the loans referred to in the report have been rescheduled during 2006/07 and therefore this confirms our view that the relevant interest period should remain as at the first option break (usually 3 years) and therefore the interest is correctly stated at the lower rate.

No amendment to be made to the accounts.

(d) Writing Out of Capital Expenditure

The Council has written out £18m of capital expenditure during 2005/06. The auditor's view is that the SORP permits only the difference between the expenditure and increase in asset value to be written off, and in the auditor's view this can only be done following a revaluation of the asset. The Director of Corporate Resources:

- (1) advises Audit Committee that the expenditure in question was only 'written off' after detailed analysis to identify the nature of the work undertaken and discussions with the Council's valuers as to whether the works would have led to a corresponding increase in value;
- (2) the major part of the expenditure written off relates to major repairs to Council Dwellings which does not lead to an increase in value of the properties;
- (3) valuations are only required every 5 years – adding in total expenditure annually could result in the converse situation with the asset values in the balance sheet being overstated.

No adjustment will be made to 2005/06 accounts but the application of the SORP will be reviewed for 2006/07 in conjunction with the Council's Valuers.

(e) Group Accounts Cash Flow Statement

This was the first year that the Council was required to produce a fully consolidated set of Group Accounts. The main challenge for the Council was obtaining the information from our related companies given the fact that they produce company accounts to a different timescale than the 3 month deadline the Council was required to adhere to. Therefore, in order to produce the group accounts, the majority of the information was based on management account information, not formal audited accounts, and as such the information for the consolidated cash flow statement was not available in the statutory format.

Officers will be reporting back to all our companies over the next few weeks about how the audit went and will provide a detailed schedule of requirements from them to enable us to produce the information for next years accounts. However given the two differing reporting timetables it remains questionable as to whether they will be able to provide the required cash flow statements within the Council's deadlines, although every effort will of course be made to obtain this information.

(f) Value of Pension Fund Assets

In order to meet the shorted timescale for production of the Statement of Accounts, it was agreed between all Devon Authorities that the pension requirements would need to be based on the position as at end of February. This was subsequently discussed with our auditor before year end who raised no objections to this approach. There is a fine line between using estimated information to enable the statutory deadline to be met or waiting for the actual information to be available and risk missing the statutory deadline. The impact for Plymouth is quoted as £1.2m. This needs to be viewed in the light of Plymouth's share of asset value of £344.21m.

The Director of Corporate Resources does not intend to amend the 2005/06 accounts for this issue.

2.2 In addition to the uncorrected misstatements, the Council has made the following adjustment to the Statement of Accounts:

Tamar Bridge Consolidation

As stated previously, 2005/06 represented the first year that the Council was required to produce a fully consolidated group account. Following discussions with the auditor before the year end, it was agreed that the Accounts for Tamar Bridge and Torpoint Ferry were not required to be included within the consolidation statements as they did not meet the requirements of the group accounts. This was consistent with the treatment by Cornwall County Council.

During the audit, this issue was again raised and following discussions and further advice from the audit technical staff, it was recommended that the accounts were amended to incorporate Tamar Bridge and Torpoint Ferry Joint Committee accounts as a joint venture. Plymouth has therefore adjusted the group accounts accordingly (it is understood that Cornwall County Council has also amended its accounts for this issue).

**3. Conclusions**

3.1 The auditor has indicated that he will not be qualifying the Council's accounts for 2005/06 for the third year in succession. Unqualified accounts contribute to good financial information and form part of our CPA assessment.

3.2 The conclusion of the audit and the presentation of the report to you today has been achieved despite a very tight time scale for both Council officers and our auditors and has involved a very good working relationship. I would therefore like to take this opportunity to acknowledge the support that the auditor has given to Council officers during the audit, particularly around new areas such as the group accounts.

#### **4. Recommendations**

4.1 It is recommended that

- (a) The Comments above be noted by the Committee and that the letter of representation on the 2005/06 accounts be approved.
- (b) The Chair of Audit Committee signs the revised final statements of Accounts for 2005/06.

**Adam Broome**  
**Director of Corporate Resources**