

Annual Governance Report

AC 17 07/08

Date: September 2007

# **Annual Governance Report**

**Plymouth City Council**

**Audit 2006/07**

## Document Control

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## Status of our reports

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- any third party.

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# Contents

<b>Purpose of this document</b>	<b>4</b>
<b>Key messages</b>	<b>5</b>
<b>Audit status</b>	<b>6</b>
<b>Accounts and Statement on Internal Control</b>	<b>7</b>
Letter of representation	7
Unadjusted misstatements	7
Adjustments to the financial statements	7
Accounting practices	9
Systems of internal control	11
<b>Use of resources</b>	<b>12</b>
Work performed	12
Use of resources assessment	12
Data quality work	12
Best value performance plan	12
<b>Audit fee update</b>	<b>13</b>
<b>Appendix 1 – Action plan</b>	<b>14</b>
<b>Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity</b>	<b>18</b>
<b>Appendix 3 – Audit reports issued</b>	<b>19</b>
<b>Appendix 4 – Independent auditor’s report to Plymouth City Council</b>	<b>21</b>
<b>Appendix 5 – Draft management representation letter (prior to ISA 260 response)</b>	<b>25</b>
<b>Appendix 6 – Summary of unadjusted misstatements</b>	<b>28</b>
<b>Appendix 7 – Summary of adjusted misstatements</b>	<b>29</b>
<b>Appendix 8 – Value for money conclusion</b>	<b>31</b>

## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged with Governance', by reporting to you matters relating to the audit of the financial statements. 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.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit Committee on 24 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements.
- 5 Our work during the year was performed in line with the plan that we presented to you on 28 June 2006. We issue separate reports during the year as we complete specific aspects of our programme, as listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is largely complete, although there are still material outstanding issues to be resolved satisfactorily. These include the need to agree:
  - the way that the council has accounted for leases;
  - the group accounts and work of group auditors;
  - a valuer's report in support of the HRA residual stock value for determining depreciation;
  - the calculation of the average weekly rent; and
  - support service charges to the HRA.
- 7 Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of the Audit Committee and the Director for Corporate Resources.
- 8 We hope to issue an unqualified audit opinion by 28 September 2007 (a draft report is attached at Appendix 4).
- 9 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is in progress but we have completed enough work to allow us to anticipate our 'value for money' conclusion. We propose issuing an unqualified conclusion on the use of resources by 28 September 2007 (a draft report is attached at Appendix 4).
- 11 The audit has identified some significant material errors, with a cumulative value of over £50 millions, mainly in the area of fixed assets. These have been corrected in the accounts and are summarised in Appendix 7. A significant number of other mis-statements and disclosure errors have been identified and corrected. The action plan at Appendix 1 summarises our recommendations to prevent a recurrence next year.
- 12 The other matter reported here for the information of members relates to the actual valuation of pension fund assets which, as last year, varies from the estimate used in the accounts by a material amount.

## Audit status

- 13 Our work on the financial statements is substantially complete, although there are still material outstanding issues to be resolved satisfactorily. These include the need to agree:
  - the way that the council has accounted for leases;
  - the group accounts and work of group auditors;
  - a valuer's report in support of the HRA residual stock value for determining depreciation;
  - the calculation of the average weekly rent; and
  - support service charges to the HRA.
- 14 The audit cannot be formally concluded and an audit certificate issued until outstanding 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.
- 15 Our review of the Whole of Government Accounts consolidation pack will be undertaken once our audit opinion work is complete. We will review this for consistency with the financial statements.
- 16 The Authority has taken a constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

# Accounts and Statement on Internal Control

## Letter of representation

- 17 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 18 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 19 A draft letter of representation has been attached as Appendix 5.

## Unadjusted misstatements

- 20 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. A summary of unadjusted misstatements is attached at Appendix 6 for the information of members. The sole unadjusted misstatement relates to the valuation of the pension fund, which is managed by Devon County Council.
- 21 We invite you to consider whether the financial statements should be amended for the unadjusted misstatements identified at Appendix 6. Should you choose not to amend the financial statements, in accordance with ISA (UK&I) 260 we request that you extend the representation letter to explain why. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates.

## Adjustments to the financial statements

- 22 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in full at Appendix 7 but we provide an analysis of the most significant items below for your attention.

### Fixed Assets

- 23 Our audit has identified a number of material issues relating to the accounting treatment of the Council's fixed assets. The total overstatement of fixed assets is £48.5m. The issues are summarised in the following paragraphs.

### Voluntary aided church schools

- 24 The Council determined, in accordance with Financial Reporting Standard (FRS) 5, to remove assets owned by voluntary aided church schools from its fixed asset register. However, three schools incorrectly remained in the fixed asset register and on the balance sheet as at 31 March 2007. The value of tangible fixed assets in the balance sheet has consequently been reduced by £10.785m.

### Assets under construction

- 25 Assets under construction are recorded as non-operational assets until they are brought into use, at which point they are recognised as operational assets. Once recognised as operational, the Statement of Recommended Practice (SORP) requires the assets to be valued in accordance with the basis relevant to that particular class of asset. The Council incorrectly valued several educational assets at cost upon reclassification. Correction has resulted in an £11.765m reduction to the value of tangible fixed assets in the balance sheet.

### Asset register

- 26 When an asset under construction is brought into use it should be removed from non-operational assets and reclassified to an appropriate class of operational asset. The Brickfields Sports Centre, valued at £3.992m, was correctly reclassified as operational but also remained under the non-operational asset under construction heading in the fixed asset register. This has now been removed from non-operational assets.
- 27 A review conducted by the Council to identify any other instances of double-counting identified that the register had not been updated to reflect a revaluation of Chelson Meadow completed in 2004. The asset valuation was overstated by £5.837m.

### Theatre Royal

- 28 The valuation of the Theatre Royal included in the balance sheet is incorrect. Correction has resulted in a reduction of tangible fixed assets by £18.49m. A review of other in-year valuations conducted by Asset Management has identified a further four incorrect valuations understated by £820k. In total the value of tangible fixed assets in the balance sheet has been reduced by £17.670m

<b>Recommendations</b>
<i>R1 Improve year-end processes for producing the financial statements to ensure that only those assets which should be included are disclosed in the financial statements.</i>
<i>R2 Strengthen arrangements with the valuer to ensure that assets which are reclassified during the year are included in the balance sheet using the correct valuation bases and that revised valuations are checked for accuracy before the financial statements are drafted.</i>



## Housing Revenue Account

- 29 The Council's calculation of depreciation for council house dwellings failed to acknowledge a residual stock value which resulted in an overstatement of HRA depreciation by £5.127m.
- 30 A prior year adjustment of £5.599m has been made to correct the position in the financial statements for the period ending 31 March 2006.

### **Recommendation**

*R3 Review annually the depreciation calculation for council dwellings ensuring that the basis for the calculation includes residual value and remaining life components provided by a valuer.*

## The Statement of Total Recognised Gains and Losses

- 31 £2.425m of gains from tangible fixed assets identified in the statement of total recognised gains and losses should have been credited to the income and expenditure account. This has been corrected.

## The Analysis of Net Assets Employed

- 32 A disclosure of the net assets employed for major activities is required by the SORP. The disclosure in Note 36 was materially misstated: The general fund net assets were understated and HRA net assets overstated by £8.7m. The note has been corrected.

## The Capital Financing Requirement

- 33 A reconciliation of the movement in the Council's capital financing requirement is required by the SORP. The disclosure in Note 19 was materially misstated insofar as the grants and contributions movement did not agree to corresponding entries in the statements. The closing capital financing requirement was overstated by £9,759m. The note has been corrected.
- 34 There were a significant number of smaller non-compliance issues and drafting errors that have been corrected during the course of the audit. A small number of notes have also required material amendment.

### **Recommendation**

*R4 Strengthen arrangements for reviewing the draft statements prior to approval by members to ensure full compliance with the SORP is achieved and that drafting errors are eliminated.*

## Accounting practices

- 35 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

36 The key issues we wish to report are as follows:

- The alignment of the fixed asset register, terrier, and land registry records is incomplete. Testing has identified significant misstatements. An extrapolation of our testing results has identified that the potential level of error is £3.9m. It is essential that these key information systems are reconciled before next year's financial statements are prepared.
- New leases with the Council acting as either lessor or lessee had not been tested prior to audit to determine whether they were finance or operating leases. This has given rise to an uncertainty as to whether the accounts are fairly stated. We are working with officers to remove this uncertainty.
- In this context, the move to International Financial Reporting Standards (IFRS) for accounting periods beginning 1 April 2008 could, in the Commission's view, impact on the treatment of leases and private finance initiative (PFI) schemes. This will vary from body to body depending on materiality and local circumstances. The Council may wish to consider the implications of IFRS being implemented when reviewing its leasing arrangements.
- The tangible fixed assets of the Theatre Royal, which comprise part of the group accounts, were not valued to ensure that the accounting policies of the group are properly aligned.
- Arrangements for obtaining draft and audited statements need to be strengthened to ensure that their receipt is in sufficient time to prepare the group accounts and meet the statutory timetable for local authority audit.
- The accountable body disclosure in Note 15 incorrectly disclosed total scheme figures rather than amounts included in the financial statements of the Council.

•

<b>Recommendation</b>
<i>R5 Align and reconcile the fixed asset register with the terrier and land registry records before the end of the current financial year.</i>
<i>R6 Arrange for all new leases to be tested to determine whether they are finance leases. Where finance leases are identified the accounting treatment should be in accordance with prevailing guidance.</i>
<i>R7 Review the tangible fixed assets of subsidiary undertakings and ensure that valuation bases are aligned before the group is consolidated.</i>
<i>R8 Review arrangements with subsidiary and associate companies to ensure that the information needed for consolidation is provided in a timely manner.</i>

***Recommendation***

*R9 Refine the approach to compiling the accountable body disclosure to ensure that only transactions controlled by the Council are included.*

## **Systems of internal control**

- 37** As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. No material weaknesses have been identified by our work.
- 38** 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.
- 39** We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

## Use of resources

### Work performed

- 40 The Code requires us to 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 resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprises the following elements:
- use of resources assessment;
  - data quality work; and
  - the best value performance plan.
- 41 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.

### Use of resources assessment

- 42 Our use of resources assessment is in progress. We have, however, done sufficient work to enable us to anticipate giving an unqualified VFM conclusion by 28 September. When finalised, we will discuss our UoR assessment with the relevant officers.

### Data quality work

- 43 We are currently finalising our data quality review and will report our findings to the relevant officers.

### Best value performance plan

- 44 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 45 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan:

	<b>Plan 2006/07 £</b>	<b>Actual 2006/07 £</b>
Financial statements and Statement on Internal Control	189,200	189,200
Use of Resources	86,100	86,100
<b>Total Audit Fees</b>	<b>275,300</b>	<b>275,300</b>

- 46 The analysis above shows that our audit fee has been contained within the totals you have already agreed.
- 47 The outturn on inspection fees will be reported in the annual audit and inspection letter.

## Appendix 1 – Action plan

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
	<b>Tangible fixed assets</b>					
R1	Improve year end processes for producing the financial statements to ensure that only those assets which should be included are disclosed in the financial statements.	3				
R2	Strengthen arrangements with the valuer to ensure that assets that are reclassified during the year are included in the balance sheet using the correct valuation bases and that revised valuations are checked for accuracy before the financial statements are drafted.	3				

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R3	Review annually the depreciation calculation for council dwellings ensuring that the basis for the calculation includes residual value and remaining life components provided by a valuer.	3				
R4	Strengthen arrangements for reviewing the draft statements prior to approval by members to ensure full compliance with the SORP is achieved and that drafting errors are eliminated.	3				
R5	Align and reconcile the fixed asset register with the terrier and land registry records before the end of the current financial year.	3				

16 Annual Governance Report | Appendix 1 – Action plan

Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
R6	Arrange for all new leases to be tested to determine whether they are finance leases. . Where finance leases are identified the accounting treatment should be in accordance with prevailing guidance.	3				
	<b>Group accounts</b>					
R7	Review the tangible fixed assets of subsidiary undertakings and ensure that valuation bases are aligned before the group is consolidated.	2				
R8	Review arrangements with subsidiary and associate companies to ensure that the information needed for consolidation is provided in a timely manner.	3				



Ref	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
	<b>Other compliance issues</b>					
R9	Refine the approach to compiling the accountable body disclosure to ensure that only transactions controlled by the Council are included.	2				

## Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, 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.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	May 2006	May 2006	Audit Committee
Ethical audit	June 2006	June 2006	Management
Internal & external audit protocol	Sept 2006	Sept 2006	Management
HR follow-up audit	Sept 2006	Sept 2006	Management
Planning inspection	Sept 2006	Sept 2006	Management
Use of Resources 2006	December 2006	December 2006	Management
CPA corporate assessment	December 2006	December 2006	Council
Devonport Regeneration Community Partnership	January 2007	January 2007	Management
Direction of Travel and Annual Audit Letter 2007	March 2007	March 2007	Council
Interim audit memorandum	June 2007	Combined with final accounts memo	Management
IT Review	June 2007	June 2007	Management
Progress in partnership working through Plymouth 2020	June 2007	June 2007	Management
Annual governance report	September 2007	September 2007	Audit Committee
Opinion on financial statements	September 2007	September 2007	Council
Use of resources (VFM) conclusion	September 2007	September 2007	Council

Planned output	Planned date of issue	Actual date of issue	Addressee
Final accounts memorandum	October 2007		Management
BVPP report	December 2006	December 2006	Management
Data quality report	November 2007		Management
Use of Resources assessments	December 2007		Management
Annual audit letter	March 2008		Council

## Appendix 4 – Independent auditor’s report to Plymouth City Council

### **Opinion on the financial statements**

I have audited the financial statements of Plymouth City Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Group Accounts, 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 2006 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 present 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 2006.

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 2006, the financial position of the Council and its Group as at 31 March 2007 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 December 2006, 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 2007.

### **Best Value Performance Plan**

I issued my statutory report on the audit of the council’s best value performance plan for the financial year 2006/07 on 21 December 2006. 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 the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. The audit cannot be formally concluded and an audit certificate issued until outstanding 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 5 – Draft management representation letter (prior to ISA 260 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 2007, 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 the attached schedule* 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;

- reason 1;
- reason 2 etc

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**

*Specific representation to be agreed.*

## **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; 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.....

Adam Broome, Director for Resources

Date: .....

## Appendix 6 – Summary of unadjusted misstatements

- 1 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

		Value of misstatement	Impact on pension deficit
Unadjusted misstatements	Nature of Adjustment	£000s	£000s
Value of Pension Fund Assets The Council, in line with other District Councils, used the estimated value of assets at 31 March 2007 provided by the Actuary to compile FRS 17 information in the financial statements (based on actual asset values as at 28 February 2007 projected forward). The actual value of pension fund assets at 31 March 2007 was higher. The Council's share of the difference has been calculated as £1,395,708.	The financial statements include FRS 17 pensions information based on the actuary's projected value of pension fund assets at 31 March 2007. The actual value of the assets was higher. If this value is used the net pension deficit is reduced.	£1,396	£1,396 reduction

## Appendix 7 – Summary of adjusted misstatements

- 2 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Removal of voluntary-aided church schools from the balance sheet	Reduction in tangible fixed assets (CR) and capital reserves (DR)			10,083	10,083
Adjustment to the value of tangible fixed assets which had been included in the balance sheet on an incorrect valuation basis.	Reduction in tangible fixed assets (CR) and capital reserves (DR)			10,785	10,785
Removal of Brickfields included twice in the balance sheet	Reduction in tangible fixed assets(CR) and capital reserves (DR)			3,992	3,992
Removal of Chelson Meadow	Reduction in tangible fixed assets(CR) and capital reserves (DR)			5,837	5,837
Theatre Royal and other incorrect valuations	Reduction in tangible fixed assets(CR) and capital reserves (DR)			17,670	17,670

30 Annual Governance Report | Appendix 7 – Summary of adjusted misstatements

		Income and Expenditure Account		Balance Sheet	
Reduction in the level of council dwelling depreciation	Reduction in HRA depreciation leading to an increase in MRR and a reduction in the FARA.	5,127	5,127	5,127	5,127
Gain on sale of fixed assets	Treat sale proceeds as a credit to the I&E account rather than STRGL		2,425		
Net Effect		5,127	7,552	53,494	53,494

## Appendix 8 – Value for money conclusion

- 3 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 4 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below. As noted in the main text, UoR work is in progress but sufficient work has been done to enable us to anticipate an unqualified VFM conclusion.

Code Criteria	Description	Associated UoR KLoE	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	Adequate

32 Annual Governance Report | Appendix 8 – Value for money conclusion

5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Adequate