

Plymouth City Council

Audit of Accounts 2008-09

Annual Report to those Charged with Governance

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To the Audit Committee of Plymouth City Council

The purpose of this memorandum is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2009. It is also used to report to those charged with governance to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

In addition, we have a number of statutory responsibilities under the Code of Audit Practice, which we report in this document. Most significantly, our responsibility to provide an opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its Use of Resources.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out at Appendix C.

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

Grant Thornton UK LLP

Bristol

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1 Executive summary

1.1 Status of audit

We were presented with the draft statement of accounts on 26 June 2009. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

Our audit is substantially complete although we are finalising our procedures in a number of areas. These are set out in Section 2.

We do not anticipate that the completion of our work in these areas will give rise to any material adjustment.

The appointed day for electors to ask the auditor questions on the accounts this year is 3 August 2009. We have not been given notice that any elector wishes to ask the auditor questions on the 2008-09 accounts.

1.2 Overall conclusion

The overall quality of the Council's working papers to support the 2008-09 accounts was of a good standard and the Council presented its accounts by the 30 June 2009 deadline.

The key highlight from the audit is set out below. The Audit Committee should formally consider the matters set out in the table below and determine whether it agrees with the treatment adopted in the accounts.

Key matters	
Impairment of Icelandic bank investments.	<ul style="list-style-type: none">• CIPFA released LAAP Bulletin 82 on 8 September 2009 setting out latest the guidance on impairment of deposits with Icelandic Banks to be recognised in authorities' 2008-09 accounts. The Council will need to review their impairment charges and disclosures to ensure it reflects the best evidence available as the time the audit opinion is signed.

Full details of the above matters and other significant issues are set out in Section 2 and 3.

1.3 Statement of Accounts opinion

We anticipate providing an unqualified opinion on the Council's financial statements, following the acceptance of this report by the Audit Committee on the 25 September 2009 and the subsequent re-adoption of the Council's accounts.

1.4 Use of resources conclusion

In providing our opinion on the financial statements we are required to provide a conclusion on the Council's Use of Resources. We anticipate providing an unqualified Use of Resources conclusion with regard to the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. This conclusion is drawn from our work relating to the organisational assessment of Comprehensive Area Assessment (CAA) which will be reported separately to the Council and presented to the Audit Committee at its meeting on 11 December 2009.

1.5 Next steps

The Audit Committee is required to approve the annual accounts of the Council for the year ended 2008-09. In forming its conclusions the Committee is required to assess unadjusted items detailed at Appendix A and form a conclusion on the appropriateness of their exclusion from the accounts.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts. This work is not covered by our opinion on the Authority's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October 2009 deadline.

We also provide an Action Plan at Appendix B that summarises the key recommendations arising from our audit of the Council's accounts and from our high level review of PAYE, expenses and benefits at the Council, as detailed in Section 4.

2 Key audit issues

2.1 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Annual Audit Plan dated 30 June 2008.

Our response to the matters identified at the planning stage are detailed below.

Status of audit

Our audit is substantially complete although we are finalising our procedures in the following areas:

- audit of the Group accounts, to include reviewing the responses from the external auditors of group organisations, which have been requested to be received before the 18 September 2009;
- receipt and review of the letter of representation;
- review of the final version of the statement of accounts; and
- updating our Post balance Sheet events review to the date of signing the accounts.

	Issue	Auditor response and conclusion
1	2008 Statement of Recommended Practice (SORP) The 2008 SORP is currently under consultation and it is expected that there will be some presentation and disclosure adjustments that will impact on the 2008-09 accounts. There is a risk that the new requirements may not be met.	The 2008 SORP was discussed early in the planning process with the finance team. All presentation and disclosure adjustments outlined in the SORP have been correctly reflected in the statement of accounts.
2	Introduction of International financial Reporting Standards. (IFRS) CIPFA have confirmed that Local authorities will be required to follow IFRS for the financial period 2010-11. Therefore, comparative information from 1 April 2009 will require restatement for the financial statements. Whilst this will not have a direct impact on our audit of the 2008-09 accounts, the Council should ensure that plans are implemented to prepare for forthcoming developments. There is a risk that the Council does not identify the future impact of these requirements on their medium term financial plans or seek to influence any future guidance that may be produced.	<p>The Council have produced a detailed project plan for the preparation of IFRS restated accounts that was presented to the Audit Committee on the 18 December 2008.</p> <p>We have discussed the project plan with the Council and are satisfied that the Council have strong arrangements in place to manage the implementation of IFRS. We will continue to liaise with the finance team to ensure that any problems or difficulties with the restatement exercise can be identified and resolved early in the process.</p>

	Issue	Auditor response and conclusion
3	<p>Accounting for PFI schemes.</p> <p>The Council has already established a number of PFI arrangements in schools and has produced an Outline Business case for an Energy from Waste Plant PFI scheme. There is a risk that these are incorrectly accounted for, due to their complexity and nature, particularly in light of the impact of IFRS which is likely to bring PFI schemes onto the Balance Sheet of the Council and will have an impact on medium term finances.</p>	<p>We reviewed the schools PFI schemes and are satisfied that the accounting treatment is correct for the 2008-09 accounts.</p> <p>We will continue to work with the Council to ensure that accounting issues arising from the implementation of IFRS are identified and resolved as early as possible. Current guidance is that PFI assets will be accounted for on the balance sheet of the Council.</p>
4	<p>LSVT</p> <p>The Council is due to undertake a tenant ballot on the transfer of its remaining housing stock towards the end of the current financial year. There is a risk that the correct procedures are not followed in undertaking the LSVT, that insufficient resources are deployed in managing the process or the transfer is not accounted for correctly.</p>	<p>The large scale housing stock transfer is planned to occur in October 2009. A disclosure note has been included within the 2008-09 accounts. The accounting implications will have a direct impact on our audit of the 2009-10 accounts.</p>

2.2 Matters identified during the course of the audit

In the conduct of our audit we identified a number of specific areas where further work or specific enquiries were made and these are summarised below. We are satisfied with the approach adopted by the Council in all of these areas.

	Issue	Auditor response and conclusion
5	<p>Impairment of Investments in Icelandic Deposits</p> <p>The Council had £13 million in Icelandic banks or their UK subsidiaries when these banks went into administration in October 2008. For the 2008-09 accounts, the Council needs to make appropriate impairment charges and disclosures in their accounts in relation to their investments in Icelandic banks using the guidance provided through CIPFA in their LAAP Bulletins.</p> <p>There is a risk that the Council may not account for this impairment correctly.</p>	<p>CIPFA issued detailed guidance on how to calculate the impairments and the required accounting entries and related disclosures.</p> <p>The Audit Commission reviewed the guidance and concluded that, subject to the correct data being input, the spreadsheet within the guidance can be relied upon to generate figures for inclusion in the accounts. Therefore, our focus was on ensuring that the Council entered the correct data into the spreadsheet. We are satisfied that the Council has made appropriate impairment charges and disclosures in their accounts at the time the draft accounts were published.</p> <p>The Council's position will need to be reviewed up to the date when we give our opinion (the latest LAAP Bulletin was issued on 8 September 2009) to ensure that the impairment is based on the best</p>

	Issue	Auditor response and conclusion
		evidence available.
6	Treasury Management Arrangements The economic climate has changed significantly over the last twelve months. These changes have resulted in additional risks for public sector bodies. One of these risks relates to the Council's treasury management arrangements in light of the Icelandic bank failures. The Council needs to ensure that these have been reviewed, updated as required, and present the optimum framework in the current environment.	We have reviewed the Council's Treasury Management Framework including the overall governance and treasury management activity arrangements. We have concluded that the arrangements are appropriate but recommended that the Treasury Management Policy could be improved further by including a clear description of how, when and who should be monitoring the credit ratings of current and future investments.
7	Impairment of fixed assets Another impact of the significant change in the economic climate is the potential impairment of fixed assets due to the collapse in the property market and land values.	A detailed impairment review was undertaken in light of the economic downturn. A £33m impairment has been recognised in the accounts as a result in the decline in the property market. We consider the methodology used to recognise the impairment was robust and appropriate.
8	Members Allowances Following the recent publicity surrounding MP's expenses, Members' allowances and expenses is a sensitive issue. There is a risk that the Council does not meet the requirements of the SORP, Members' allowance regulations or that internal policies are inappropriate.	As a part of our audit we reviewed the arrangements for members allowances and expenses. We have gained assurance that the Council has appropriate procedures in place and that members have only claimed legitimate expenses that they are entitled to.

3 Detailed findings

3.1 Audit opinion

We expect to issue an unqualified audit opinion on the Council's Financial Statements. This is subject to the approval of the financial statements by the Audit Committee on 25 September 2009.

3.2 Audit of the accounts

A small number of accounting issues were identified during the course of our audit. While not considered material to the reported financial position, these issues should be considered by those charged with governance prior to approval of the financial statements.

The key issues for attention are as follows:

FRS 17

The actuary has confirmed that the audited net assets of the Devon pension fund, as at 31 March 2009, are £1,783 million. However, the assumed value of assets used by the actuary in the FRS 17 report to the scheduled and admitted bodies for the preparation of the draft accounts was £1,768 million. Therefore, there has been an underestimation of £14.7 million. Plymouth City Council's share of this difference has been calculated £2.663 million using the actuarial calculation of the percentage share of the assets.

Year-end adjustments

We tested a sample of creditors and identified that one related to a scheduled payment for £123,567. This payment relates to goods/services received in 2009-10. The relevant service accountant identified the error prior to closedown and removed the expense from the Income and Expenditure account and raised a debtor to reverse the creditor. However, this treatment has resulted in both the creditors and debtors balances being overstated by £123,567. This misstatement has been adjusted.

Government Grants Deferred Account

When the Council receives a government grant and it has been used to finance capital expenditure, the government grant balance is deferred to the government grants applied account and it is amortised to revenue over the life of that asset that was purchased using the grant.

We reviewed the working papers supporting the movements on the government grants deferred account and identified that the amortisation of a significant number of individual grants, relating to 2007-08 had not commenced in 2008-09. This error has resulted in the net cost of services line in the Income and Expenditure account and the government grants deferred account on the balance sheet being overstated by £314,130. This misstatement has been adjusted.

Where appropriate, we have made recommendations for improvement as set out in the action plan at Appendix B of this report. We have discussed these and other matters arising with the finance team and formal management responses are included in the action plan.

3.3 Misstatements

All adjusted misstatements are set out at Appendix A. The aggregate impact of adjusted misstatements resulted in a decrease on the overall deficit on the Income and Expenditure account of £314,130 and a corresponding increase to total assets less liabilities in the balance sheet.

The aggregate impact of unadjusted misstatements, were they to be processed, would result in £2.663 million reduction in the pension liability with a corresponding reduction in the pension reserve. There will be no impact on the Income and Expenditure account.

3.4 Disclosure omissions

Our review found no significant omissions in the financial statements.

3.5 Annual Governance Statement (AGS)

We have examined the Council's arrangements and process for compiling the AGS. In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. Our audit identified a number of adjustments to the presentation of the AGS as follows:

- Need to include details on the internal audit review assessed as 'Fundamental Weakness' under 'Significant Governance Issues'.
- The Council should consider providing additional detail to ensure that a description is included of how governance arrangements meet core principles 5, 'developing the capacity and capability of members and officers to be effective' and 6, 'engaging with local people and other stakeholders to ensure robust accountability' of the 'Delivered Good Governance in Local Government' framework.
- References to the new internal audit arrangements should be amended to clarify that this was effective from 1 April 2009.
- Housing Stock Options paragraph should be clarified to explain the meaning of gap funding, including who provides it.

3.6 Use of resources

We are required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

We are also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

In forming our scored use of resources judgements, we have used the methodology set out in the use of resources framework. Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.

We have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.

From 2008-09, the use of resources assessment is more demanding than previous assessments. The KLOE are more broadly based than previously and embrace wider resource issues such as workforce planning and the use of natural resources. The KLOE focus more on value for money achievements, outputs and outcomes rather than on processes. As part of the continuing drive to improve standards the scoring arrangements have been adjusted so that to attain level two the council must show that it has arrangements that are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.

To achieve a level three, councils now need to demonstrate a higher standard of performance which includes the following:

- operating consistently above minimum requirements;
- demonstrating a forward-looking and pro-active approach;
- evidencing outputs and outcomes which demonstrate impact; and
- effective partnership working.

This is a significant challenge and it follows that 2008-09 use of resources scores are not directly comparable with those for the previous year.

The Council's 2008-09 use of resources theme scores are shown in table below. This is subject to national quality assurance and finalisation by the Audit Commission, including appeal arrangements and, as such, are provisional at this stage. We have included them for information but they should not be shared more widely until we have confirmed the final assessment.

The key findings and conclusions for the three themes, and the underlying KLOE, will be reported separately.

Theme	Provisional score
Managing finances	(3)
1.1 Planning for financial health	3
1.2 Understanding costs and achieving efficiencies	3
1.3 Financial reporting	2
Governing the business	(2)
2.1 Commissioning and procurement	2
2.2 Use of information	2
2.3 Good governance	3
2.4 Risk management and internal control	3
Managing resources	(2)
3.1 Natural resources	2
3.2 Strategic asset management	3
3.3 Workforce	Not assessed

Underlying principles of performance:
Level 2 - performs adequately
Level 3 - performs well
Level 4 - performs excellently

Based on the work carried out to date, supported by local use of resources work, we propose to issue an unqualified Use of Resources conclusion.

4 PAYE and Employment Tax Review

As part of our added value offering to the Council, we asked our taxation and PAYE experts to review the Council's underlying arrangements of PAYE, expenses and benefits at the Council. In particular;

- payroll, where we considered the aggregation of multiple jobs for PAYE purposes, payments in lieu of notice, PAYE settlement agreements/dispensations and expenses;
- vehicles, where we considered company van usage, pooled cars arrangements and the fixed profit car schemes; and
- procedures for dealing with the Construction Industry Scheme (CIS).

We have concluded that overall arrangements are generally sound, with effective processes in place. However, we have identified some specific improvements to procedures which can be introduced. These are detailed in our Action plan in Appendix B.

A Adjustments to the financial statements

Unadjusted misstatements

Detail	Accounting statement affected	Impact in the accounts
FRS 17 Net assets of the pension fund has been understated by £2.883 m, due to use of estimated figures in the accounts.	Balance Sheet	Reducing the pension liability by £2.883 m and decreasing the pension reserve by £2.883 m

The overall impact of unadjusted misstatements would be to reduce the pension liability by £2.883 million and decreasing the pension reserve by a corresponding amount. Nil impact on the Income and expenditure account.

Adjusted misstatements

Detail	Accounting statement affected	Impact in the accounts
Draft accounts included a creditor and corresponding debtor of £123,567 that related to goods and services received in 2009-10.	Balance Sheet	Reducing the creditors by £123,567 and decreasing the corresponding debtor by £123,567
Amortisation of a significant number of grants in the government grants deferred account relating to 2007/08 had not been commenced in 2008-09.	Balance Sheet and Income and Expenditure Account.	Net cost of service line in the Income and Expenditure account and government grants deferred balance reduced by £314,130.

The overall impact of audit adjustments is a decrease on the overall deficit of the Income and Expenditure account of £314,130 and a corresponding increase to the total assets less liabilities in the balance sheet.

Disclosure omissions

Our review found no significant omissions in the financial statements.

B Action plan

	Priority	Issue and risk	Recommendation	Management response
Findings from audit of the accounts				
1	Low	The Council have a updated Treasury Management Policy. However, the policy does not stipulate the frequency credit ratings are required to be monitored. There is a risk that, without frequent monitoring of credit ratings, the Council may have investments in high risk institutions.	The policy should be amended so that there is a clear description of how, when and how should be monitoring the credit ratings of current and future investments.	<p>The Council does receive credit rating changes from its treasury advisors in a timely manner and immediately amends its investment strategy as required. The policy is reviewed annually and will be amended to include monitoring of credit ratings on at least a monthly basis as an additional safeguard.</p> <p>Responsible Officer: AHOF (Corporate)</p> <p>Target date: October 2009.</p>
2	Medium	We tested a sample of creditors and identified that one related to a scheduled payment for £123,567. This payment relates to goods/services received in 2009-10. The relevant service accountant identified the error prior to closedown and removed the expense	We recommend that the finance team provide guidance to the service accountants to ensure that any 2009-10 payments scheduled prior to year end are removed from the balances within the accounts	The closedown guidance will be amended to include the correct process to remove scheduled payments from balances, and this issue will be specifically covered in the closedown training sessions, delivered by corporate staff to service accountants prior to

	Priority	Issue and risk	Recommendation	Management response
		from the Income and Expenditure account and raised a debtor to reverse the creditor. This treatment has resulted in creditors and debtors being overstated by £123,567.		annual closedown. Responsible Officer: AHOF (Corporate) Target date:- March 2010
3	Medium	We reviewed the working papers supporting the movements on the government grants deferred account and identified that the amortisation of a significant number of individual grants had not commenced in 2008-09.	The finance team should maintain and update their government grant deferred account (GGDA) working papers ensuring that all applied grants have been matched to a specific fixed asset and there is a clear audit trail between the GGDA working papers and the fixed asset register.	A complete review of the government grants accounts was scheduled for 2009/10 but is currently on hold pending a potential change in accounting treatment under IFRS. However, we will issue further guidance and training to remind staff that grants should be matched to assets in the register for 2009/10 closedown. Responsible Officer:: AHOF (Corporate) Target date:-March 2010
Findings and recommendations from our PAYE, expenses and benefits review.				
4	Low	There are a significant number of P11Ds completed (circa 1,700) annually. Due to the number completed there is an increased risk that errors may arise and penalties could arise for each P11D containing an error. Due to the number of P11Ds these penalties could add up	Complete a review of items included on P11D's in order to establish if agreements could be reached with HMRC to reduce the number of P11Ds that require being completed. This would reduce the number of	Review to be carried out, although 98% of P11D's produced are in relation to business mileage. At present PCC rates are in excess of HMRC approved mileage rates and whilst this is the case it is unlikely that HRMC will agree

	Priority	Issue and risk	Recommendation	Management response
		to a significant amount of cash at stake.	P11D's on which an error could arise.	to reduce the number of PIID's. Responsible Officer: Payroll Manager Target Date:- April 2010
5	Medium	Expenses Policy: PCC's guide to expenses is included within the terms and conditions in the contract offered to the employee. They do not have a separate expenses policy which they can make reference to. Therefore, should PCC change anything relating to expenses (how much can be claimed, how expenses can be claimed, what expenses can be claimed) they will need to issue new terms and conditions. As such there is a risk that employees are not aware of changes in expenses imposed by PCC or by changes in agreements with HMRC and therefore claim for expenses that are not allowable or amounts that are too high.	An expenses policy should be drafted and circulated to all employees. This should agree to any existing agreements with HMRC as well as PCC's internal rules. It should set out what expenses can be claimed, amounts that can be claimed, authorisation processes, and how to make a claims.	Agreed. A Separate expenses policy to be drafted for approval. For Completeness this policy will also be included in the Council's Financial Regulations "Index". Responsible Officer: Senior HR Advisor Target date:- December 2009
6	Medium	Termination payments HMRC could consider certain termination or damages payments to be contractual due to them being customary and therefore being taxable. If HMRC challenge this successfully there could be	Legal and tax advice should be sought confirming that the number of these payments, and types of payments don't create an opportunity for HMRC to challenge these payments. All decisions made internally as to	At present there is no contractual entitlement to termination or damage payments nor is it customary, but agreed that the process requires documentation & guidelines to be written to support any decision in relation to

	Priority	Issue and risk	Recommendation	Management response
		a significant tax liability arising for PCC to pay due to the large number of these made each year (circa 279 last year).	why a payment can be made tax free need to be documented and this documentation needs to be retained to support the decisions made if they are challenged by HMRC. It may also be beneficial to draft guidelines with the assistance of lawyers and tax experts to make sure that all decision makers are aware of all areas to consider when deciding if a payment can be made with the first £30,000 tax and NI free.	termination or damage payments. As part of this review, tax advice to be sought for clarification. Responsible Officer- Payroll Manager Target Date:- April 2010
7	Medium	Employment Status Due to the working arrangements of the self-employed cleaners used by PCC it is possible that HMRC may argue these are actually employed. If they do this successfully then they are likely to pursue PCC for the PAYE and NIC (employers and employees) on these amounts. This is only a risk to PCC if the cleaners are contracted with directly, rather than via another company (ie: their personal service company).	A review of the agreements between PCC and the self employed cleaners should be completed to identify which, if any, are between PCC and the cleaner directly. If any are between the cleaner and PCC then an employment status review can be completed to provide support that these are correctly being treated as self employed. The employment status indicator tool on the HMRC website can be used to provide limited comfort if a full employment status review is deemed not necessary.	Agreed. A review will be undertaken prior to year end. Responsible Officer:: HR Advisor Target date: March 2010.
8	Medium	Construction Industry Scheme The existing guidance relating to CIS contains several errors (eg: reviewing invoices instead of	The existing guidance needs to be amended to correctly record the entire process currently being used stating that contracts are reviewed	Existing guidance will be reviewed and amended where necessary to ensure the

	Priority	Issue and risk	Recommendation	Management response
		contracts) but the actual process used appears to ignore these errors and therefore appear to be correct. The current process is reliant heavily on the knowledge of the existing employees reviewing the invoices. However, should the current employees dealing with CIS leave, anyone trying to follow the existing policy could make errors if they did not have sufficient CIS training to identify the errors contained in the existing guidance	when set up. It should be sufficient to enable a new joiner with knowledge of CIS to correctly identify if an invoice is within the CIS regime or not.	correct process is being followed by all staff. Responsible Officer:: Senior Financial Services Officer Target date: 31.12.09
9	Medium	Construction Industry Scheme Where an existing contract does not contain any CIS element but subsequently, under that contract some CIS work is completed, the existing system would not identify if this has an impact on the CIS status of the entire contract. As such, payments which should be included in the CIS regime may be missed	As part of the process of drafting the CIS guidelines a comprehensive review of the existing CIS process should be completed to identify if this has occurred	The existing CIS process will be reviewed to identify, if possible, where this has occurred. The amended guidelines will include some processed to minimise the risk of this happening in future. Responsible Officer:: Senior Financial Services Officer Target date: 31.12.09
10	Medium	Private use of vans There is currently very little evidence to support that private mileage is not completed by the employees who take company vans home on a daily basis. As such, should HMRC	Record keeping and regular checks need to be completed in order to support that private mileage is not completed in these vans. This could include regular reviews of a sample of vehicles miles completed to business journeys	Agreed. Discussions will be held with the relevant department to ensure regular checks and recording of mileage is carried out if vans

	Priority	Issue and risk	Recommendation	Management response
		successfully argue that private mileage is completed on these and therefore a BIK should be recorded, they may be able to pursue PCC for tax and NIC on every van taken home on a BIK of £3,500 per van. Assuming that 75 vans are taken home this could lead to a liability of circa £80,000 for each year reviewed.	completed. This would need to be detailed and recorded. Given the number of journeys completed, PCC may wish to consider if applying trackers to their vans could be the most efficient way of maintaining records to support that private useage is not completed in these vans. Where it is established that private useage does occur, a BIK should be reported on form P11D for that employee.	are taken home on a daily basis. Responsible Officer: Fleet Manager Target Date: December 2009

C Reporting requirements of ISA 260

Introduction

Together with the Audit Commission's Code of Audit, this section sets out the basis on which we have undertaken your audit.

Purpose of memorandum

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP (us/we) and the Audit Committee of Plymouth City Council ('the Council'). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Audit Committee.

The Council is responsible for the preparation of financial statements which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We as auditors are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements represent a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code') we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. To reach this conclusion we have carried out the Use of Resources assessment using criteria prescribed by the Audit Commission. This work also informs our Use of Resources opinion.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

Responsibilities of the Council and auditors

The Council is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Council confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

This report is made solely to the Members of the 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. To the fullest extent permitted by law, Grant Thornton UK LLP does not accept or assume responsibility to anyone other than the Council or its Members as a body, for its audit work, for this report, or for the opinions it has formed.

Clarification of roles and responsibilities with respect to internal controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit Committee that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

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

We would be pleased to discuss any further work in this regard with the Audit Committee.

Independence and robustness

We are independently appointed by the Audit Commission, and have been assessed as complying with its quality standards. In addition, ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Audit of accounts	204,350
Use of resources	117,750
Certification of grants and claims	100,000
All other services (paid to the Audit Commission)	54,630



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