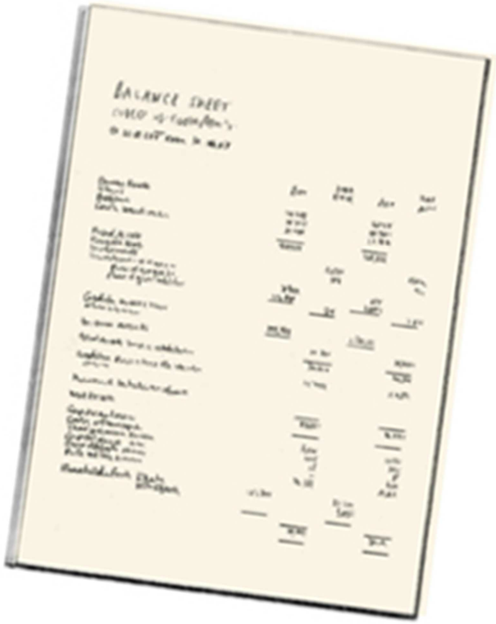
Grant Thornton

Plymouth City Council

Annual report to those charged with governance (ISA 260)

September 2011



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1 Executive summary

Purpose of this report

This report has been prepared for discussion between Grant Thornton UK LLP and the Audit Committee of Plymouth City Council (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice 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.

Audit conclusions

Financial statements opinion

We were presented with draft financial statements and accompanying working papers on 30 June 2011, the statutory deadline. The working papers were of an adequate standard and the financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 (the Code), based on International Financial Reporting Standards (IFRS).

Based on our work to date, there are a small number of adjustments required to the financial statements, the most significant being:

- a reduction of £60.2 million in the value of the Council's school assets as a result of the approval of their transfer to Academy status before 1 April 2011, resulting in an increase in the deficit on the provision of services and reduction in the revaluation reserve, although there is no impact on the General Fund balance
- the reclassification of £5.0 million of assets incorrectly included as community assets in the draft accounts to infrastructure and vehicles, plant, furniture and fittings and
- an increase in the value of the Council's share of assets in the Devon Pension Fund of £2.9 million, resulting in an increase in total comprehensive income, this also has no impact on the General Fund balance.

The key recommendations arising from our audit of the Council's financial statements are:

- the Council's asset register needs to be updated to support the accounts as soon as possible, and should be periodically reconciled to the general ledger;
- £4.7 million of historic Council tax debtor balances raised before 2000 should be written off, a recommendation we also made in 2009-10. We recognise that the Council should continue to pursue cost efective means of recovering amounts whilst this remains economically viable; and
- the Council should re-assess its accounting treatment for the Tamar Bridge and Torpoint Ferry Joint Committee in 2011-12.

Subject to the required audit adjustments being made, we anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 23 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

Value for money conclusion

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

We are pleased to report that we propose to give an unqualified value for money conclusion on the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

Further details of the outcome of our value for money review are given in section 3.

The way forward

Matters arising from the financial statements audit have been discussed with the Director for Corporate Support. We have made a small number of recommendations, which are set out in the action plan at Appendix C. These have been discussed and agreed with the Director for Corporate Support and his senior finance team.

Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

We would like recognise the significant task that the Council's officers have faced in preparing these accounts under International Financial Reporting Standards for the first time this year within the challenging financial background faced by the Council. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

September 2011

2 Key audit issues

Matters identified at the planning stage

We report our findings in line with our planned approach to the audit which was communicated to you in our update to the Financial Audit Plan dated June 2011.

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

Issue	Audit areas affected	Work completed	Assurances gained
The 2010-11 financial statements may not be prepared in accordance with IFRS	All areas of the financial statements	• We have reviewed the Council's accounting policies and material balances and transactions impacted by the transition to ensure that the accounts reflect the requirements of IFRS.	• The 2010-11 financial statements comply with the requirements of IFRS. • Our audit has identified a small number of IFRS related amendments required to the accounts. • The impact of the transition to IFRS has been appropriately disclosed and the 2009-10 accounts restated accordingly.

Issue	Audit areas affected	Work completed	Assurances gained
There may be insufficient finance resource to deliver statutory requirements by 30 June 2011	**All areas of the financial statements**	• We have continued to meet regularly with the Council's finance staff to respond to technical queries and to provide timely review of the proposed accounting of emerging issues.	• The financial statements were prepared and published on the Council's website by the statutory deadline of 30 June 2011.
Pressure over financial performance may affect the Council's ability to deliver its budget	**All areas of the financial statements**	• We have kept the Council's financial performance under continuous review throughout the year through discussions with key officers of the Council and consideration of the financial performance reports presented to members. • We have reviewed the budget setting process and achievement of savings in delivery plans through our VFM work.	• The sound financial and budgetary control arrangements enabled the Council to deliver a deficit of only £105,000 for the year. • Our VFM work has not identified any significant weaknesses in the arrangements to secure financial resilience.
Revaluation of fixed assets are not correctly accounted for	**Property, plant and equipment**	• We have reviewed the valuation report prepared by the Council's valuers to confirm that the valuation basis used for each asset class is in accordance with the requirements of the Code and IFRS. • We have reviewed a sample of the valuations undertaken to ensure that these comply with the requirements of IFRS, particularly in relation to the valuation of schools.	• The valuation bases adopted are consistent with the requirements of the Code and IFRS. • Our audit testing has confirmed property, plant and equipment balances are not materially misstated. • The classification of a small number of assets needs to be revisited to ensure that these are appropriate.

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in January 2011 in our Audit Plan. Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt and review of information for some outstanding queries in relation to analytical review of income and expenditure
- completing the audit of the Council's Group Accounts following receipt of the Tamar Bridge and Torpoint Ferry Joint Committee audit report from the Audit Commission
- receipt and review of the final version of the financial statements
- obtaining and reviewing the Council's letter of representation
- reviewing post balance sheet events, up to the signing of the accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 23 September 2011.

A small number of issues arose during the course of the audit, which should be considered by the Audit Committee. These are set out in the following paragraphs. Where appropriate we have made recommendations for improvement these are set out in the agreed action plan at Appendix C.

Matters arising from the financial statements audit

Following certification by the Council's Director for Corporate Support we were presented with draft financial statements for audit on 30 June 2011. We are pleased to report that the financial statements were accompanied by adequate working papers, and that finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information.

Investments in Icelandic banks

Plymouth City Council is one of a large number of public bodies seeking recovery of funds invested in Icelandic banks prior to the collapse of Iceland's banking industry in 2008. The Chartered Institute of Public Finance and Accountancy (CIPFA) have periodically issued guidance on the valuation of these investments based on administrators' reports, the most recent of which was issued in May 2011.

This guidance indicates that the impairment charged to the Council's comprehensive income and expenditure account in 2009-10 should be reduced by £4.6 million, reflecting the latest forecast recovery. The Council has chosen not to reflect this change in guidance in the 2010-11 financial statements because the recoverable amount recommended by CIPFA remains subject to legal challenge in the Icelandic courts.

This amount is not material to the financial statements and we accept the approach adopted by the Council. We consider that the impact of this decision has been appropriately set out and disclosed in the financial statements.

Adjusted misstatements

During the course of our audit of the financial statements, we have identified the following misstatements that have been subsequently adjusted.

Valuation of academies

During 2010-11 two of the Council's schools became Academies and seven further schools received approval to transfer to Academy status on 1 April 2011 and one on 1 August 2011.

At the point of becoming an Academy the buildings and equipment relating to each school are transferred to the school for nil consideration, and the Council recognises a loss on disposal. As the formal approval for transfer of each of these eight schools was before 1 April 2011 the relevant assets will have no on-going value to the Council and the Council will receive no sale proceeds. The value of the schools needs to be impaired in 2010-11, as a result the value of the assets relating to the schools was overstated by £60.2 million and an impairment has been recognised under Childrens' and Education Services in the comprehensive income and expenditure account of £56.6 million with the balance of £3.6 million reducing the revaluation reserve.

Classification of assets

The Code requires that 'Community assets' are held at cost, and are not subject to depreciation. These assets are defined as those "that the authority intends to hold in perpetuity and that have no determinable useful life".

The Council's balance sheet includes community assets with a net book value of £22.6 million, with a gross cost of £26.3 million and accumulated depreciation of £3.7 million. These assets were depreciated by £0.6 million in 2010-11, which is not consistent with the requirement to hold community assets at cost with no depreciation.

We requested that the Council review a sample of the assets included within this category, with an individual value of above £142,000, and a net book value of £5.3 million. These assets were being depreciated and did not meet the criteria of a community asset. The Council concluded that £5.0 million net book value of the assets reviewed should be reclassified, £4.3 million should be infrastructure assets and £0.7 million should be vehicles, plant furniture and fittings. We have agreed with the amendment the Council has made. These classes of assets are correctly held at cost and are depreciated, so the reclassification has had no impact on the Council's comprehensive income and expenditure account.

Our audit has identified that the value of community assets has been increased by £10.3 million during 2010-11. Of this total, £2.4 million relates to assets that the Council had not previously accounted for. These assets have been identified as part of the Councils preparations for separately accounting for 'Heritage assets', as required under IFRS. This classification is required to be implemented in 2011-12. For 2010-11, the Council has amended the financial statements to identify these assets as additions rather than a revaluation.

The remaining £7.9 million shown as a revaluation of community assets in the draft accounts has been included to reflect the change in insurance valuation identified by the Council during the year. The Code does not permit these assets to be revalued. The accounts have been amended to reverse this revaluation and the property, plant and equipment and reserves disclosures in the accounts adjusted accordingly.

The Council should also continue to review all of the other assets currently classified as community assets to confirm that they are classified correctly. The Council should ensure that this review considers the classification and basis of valuation for each asset within this class. It should be completed prior to the preparation of the 2011-12 financial statements.

Pensions valuation

In line with standard practice across local government bodies the Council's actuary estimated the value of assets at 31 March 2011 from a forecast at 28 February 2011. This was used to calculate the net deficit on the pension scheme.

Following the Audit Commission's audit of the Devon Pension Fund the value of the scheme assets was found to be understated. This is a common issue and identified each year, after the year end, when the actual asset value at 31 March is known. In 2010-11 Plymouth City Council's share of this understatement is £2.9 million, reducing the deficit shown on the balance sheet and increasing the actuarial gain for the year. As the size of this understatement is significant for the current year the Council has agreed the amendment to its financial statements.

Section 106 contributions

The Council entered into a new Section 106 planning agreement for a development at Southway Drive in 2010-11. The funding had not been received from the developer at the year end so the balance due was included as a debtor.

A credit note was issued after the year end for £0.4 million because this amount was not legally due at 31 March 2011. Therefore both the debtor and the corresponding creditor (reflecting the capital contribution received in advance) are overstated by this amount.

School cash balances

The Devonport High School for Boys became an Academy during 2010-11 and as a result the Council no longer holds cash on behalf of the school. At the end of the financial year a balance of £0.4 million which related to this school was included in the Council's own cash balance.

This amount actually relates to an overpayment of funding to the school and is due to be repaid to the Council. Consequently this has been reclassified as a short-term debtor.

Grant expenditure

The Council has identified £0.2 million of grant expenditure incorrectly shown against 'Taxation and non-Specific Grant Income' on the face of the Comprehensive Income and Expenditure Account. This relates to expenditure on cultural, environmental, regulatory and planning services and has been reclassified accordingly.

Investment in Tamar Science Park

The Council has restated its group accounts for 2009-10 to reflect the agreement reached with Tamar Science Park in March 2010 for the Council to jointly provide a £3.0 million investment in partnership with Plymouth University.

The Council's single entity accounts were not restated to reflect this change. As a result both long-term investments and long-term liabilities were understated by £1.5 million in the 2009-10 comparative figures. As this adjustment related to the prior year, it has been shown in Appendix B as a disclosure adjustment.

Plymouth Airport

In the draft accounts the Council included a disclosure on events after the balance sheet date in relation to the airport. The airport was let on a 125 year lease to an external company, Sutton Harbour Holdings. The disclosure stated that the lessee had served notice of its intention to close the airport in December 2011 due to trading difficulties and that the Council was undertaking an economic study of the airport's operations.

On 23 August 2011 the Council's Cabinet accepted the notice of non-viability from the lessee following receipt of three reviews on the airports financial viability. This means that the operator may decide to sell the airport site, in which case the Council will received 75% of the sale proceeds. In accordance with IAS37 relating to contingent assets, as there is now a possibility that sale proceeds may be received, although there remains a level of uncertainty, we have agreed that the Council should disclose a contingent asset in respect of this event within the accounts.

The events after the balance sheet disclosure has also been brought up to date to reflect the current position, as at the date of signing the accounts.

Group accounts

The Council has updated the group accounts to reflect amendments to the Council's own accounts and changes between the draft and final accounts for the group entities.

Unadjusted misstatements

Our audit has not identified any amendments to the financial statements that have not been processed by management. However we have set out in the following pages other issues arising from our work which may have resulted in amendments if the Council had actioned the recommendations we have made in 2010-11. We have concluded that these issues would not materially impact on the 2010-11 financial statements.

Other issues arising

During the course of our audit we have identified a number of issues that do not have a financial impact on the 2010-11 financial statements but we recommend that these are addressed by management prior to the preparation of the 2011-12 financial statements.

Fixed asset register

During 2010-11 the Council introduced new asset management software, supplied by Technology Forge, which includes a fixed asset register. The Council produced an opening fixed asset register as at 1 April 2010 on the new software and work on the closing position at 31 March 2011 is on-going.

The Council should ensure that this is completed as soon as possible and that a periodic reconciliation is carried out to the Council's general ledger.

Historic Council tax debtors

Following our audit of the 2009-10 financial statements we recommended that the Council's debtor balance of £4.7 million relating to transactions before 2000 should be written off. These balances relate to the previous computer system and balances after this date are routinely written off. The Council has recognised that these balances are unlikely to be collected and has a doubtful debt provision for them in full.

The balances were not written off in 2010-11 and so we have repeated our recommendation this year. We recognise that the Council should continue any recovery action in respect of these debts as long as it remains economically viable to do so.

Provision for doubtful debts

Accounting standards require an allowance to be made for debtors that are considered to be uncollectable, firstly through a review of individual debtor accounts and secondly by applying a percentage based on previous experience of collecting similar debt.

The Council has several types of debt, each of which has its own provision. While some of these are based on a review of individual debtor accounts others, for example the provision for National Non-Domestic Rate debtors, are based on the Council's assumptions as to the balance that is likely to be collected, rather than historic collection rates.

The Council should review its bad debt provisions to ensure that these are based on a review of individual debtors and then on historic collection rates.

Accounting for Tamar Bridge and Torpoint Ferry Joint Committee

As in previous years the Council has accounted for its 50% share in the Tamar Bridge and Torpoint Ferry Joint Committee (TBTFJC) as a 'jointly controlled entity' in the group accounts and not within the single entity accounts of Plymouth City Council. This is the accounting treatment that was adopted by both Plymouth City Council and Cornwall Council in 2005-06, following discussion with the Audit Commission who were the external auditors at that time.

In 2010-11 we have revisited the accounting treatments of all of the Council's group activities, both in response to the change in nature of some of those relationships, such as the Theatre Royal, and because of the clarification of arrangements introduced under IFRS. We have also reviewed arrangements against the Audit Commission's technical guidance for auditors.

Our review has indicated that the current accounting treatment for TBTFJC as a jointly controlled entity, does not appear to be consistent with the definition included within the Code. Specifically, one of the factors that determines whether an organisation is accounted for as a jointly controlled entity is its ability to enter into contracts in its own name or raise finance for the purposes of the joint activity. In the case of TBTFJC it needs to do this through the parent authorities, which recently has been through Cornwall Council.

In addition, our review of the technical guidance provided by the Audit Commission for auditors sets out that joint committees are unlikely to meet the definition of an entity set out in the Code. It states that joint committees should be accounted for as 'jointly controlled operations' which are incorporated in the single entity accounts, i.e. Plymouth City Council and Cornwall Council accounts, and not their respective group accounts.

From our discussions with the Council and the former auditors, this inconsistency has arisen due to the fact that there is specific legislation around the Tamer Bridge which has been interpreted as establishing the organisation as separate legal entity. It is our view that this position is not certain and needs to be clarified.

We understand that Cornwall Council's external auditors maintain their original accounting view.

If Plymouth City Council accounted for its share of the Joint Committee within its single entity accounts in 2010-11 it would have increased the surplus on the comprehensive income and expenditure statement at 31 March 2011 by £0.6 million and increased the net assets and reserves in the balance sheet by £104.6 million.

There would be no overall impact on the Council's group accounts because these amounts are already included within them.

We have discussed this with management at Plymouth City Council and agree that it would not be appropriate to have a different accounting treatment between the two Councils. Consequently we have agreed that the accounting treatment of the Joint Committee should be re-assessed by both Councils in 2011-12. Any change in accounting treatment would be processed through a prior period adjustment because it would be material.

Evaluation of key controls

Internal controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. The findings from our evaluation of the Council's key financial control systems to the date of our interim report were presented to the Audit Committee in June 2011.

Review of IT

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts.

One recommendation for improvement was included in our interim report and we have also identified a number of minor IT control issues which have been communicated to management. These do not present a material risk to the accuracy of the financial statements and have not been repeated in this report.

Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in February 2011 concluded that the Council met these requirements and identified two recommendations for further improvement, as detailed in our interim report.

We consider that the Council has put in place sufficient resource to deliver an internal audit plan and has an appropriate risk based methodology. We also considered whether the Council had sufficient flexibility in its resource to respond adequately to unplanned risks arising in the year. We are satisfied that the existing arrangements are sufficient to achieve this.

We draw on this work in forming our overall Value for Money (VfM) conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This work also supports our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

Where internal audit has identified control issues, or where there has been no internal audit coverage we have not placed reliance on internal controls and have taken a more substantive based audit approach. This means that we place more reliance on analytical procedures and detailed transaction testing. Where issues arising from our audit work have been identified these are reported as part of our key findings from the audit. Where we have identified additional internal control issues, not previously reported by internal audit or other sources, we have made recommendations for improvement in Appendix C.

Head of internal audit opinion

The Council's Chief Internal Auditor stated in her opinion that she provided reasonable assurance on the adequacy and effectiveness of the internal control environment for 2010-11.

However, Internal Audit's annual report identified one area where there were 'fundamental weaknesses' in the Council's arrangements, which was in respect of corporate information management. We have discussed the progress made to date by management against the agreed action plan with the Devon Audit Partnership and are satisfied that appropriate actions have been taken to address the concerns raised and that there is no impact on our audit opinion.

Management of the risk of fraud

We have sought assurances from the Director for Corporate Support and the Chair of the Audit Committee in respect of processes in place to identify and respond to the risk of fraud at the Council. We have also considered the work of the Council's internal audit service. From these enquiries we have established that those charged with governance have sufficient oversight over these processes to give them the assurances they require in regard to fraud.

In the course of our accounts audit work, we did not uncover any evidence of fraud or previously undisclosed control weaknesses which might undermine the Council's process for mitigating the risk of fraud.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we have read the AGS and considered whether the statement is in accordance with our knowledge of the Council.

We reviewed the draft AGS and considered the document to be satisfactory in terms of content, is a fair representation of Council's operations during the year and is in line with the Code. We concluded that the overall arrangements were appropriate to ensure that management actions are reviewed effectively.

Public questions and objections

We did not receive any questions or objections from the public or other interested parties in respect of the financial statements for the year ended 31 March 2011.

Next steps

The Audit Committee is required to approve the financial statements for the year ended 31 March 2011. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

3 Value for money

Value for money conclusion

The Audit Commission Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For 2010-11 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In order for us to provide an unqualified conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

We expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

Programme of work - review of proper arrangements

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are detailed below.

Code criteria	Work completed	Conclusion
Planning finances effectively to deliver strategic priorities and secure sound financial health	Reviewed as part of financial resilience work and from our overall review of Council performance against its strategic targets	Proper arrangements considered to be in place

Code criteria	Work completed	Conclusion
Having a sound understanding of costs and performance and achieving efficiencies in activities	Considered in our review of the Council's financial resilience	Proper arrangements considered to be in place
Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people	Reviewed as part of financial resilience work and our audit of the financial statements	Proper arrangements considered to be in place
Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money	Considered as part of our review of the Councils procure to pay project	Proper arrangements considered to be in place
Producing relevant and reliable data and information to support decision making and manage performance priorities	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity and our review of the Council's project management arrangements	Proper arrangements considered to be in place

Code criteria	Work completed	Conclusion
Promoting and demonstrating the principles and values of good governance	Considered in our reviews of financial resilience and project management and our review of the AGS	Proper arrangements considered to be in place
Managing risks and maintaining a sound system of internal control	Considered as part of our financial resilience review and also within our reviews of the procure to pay project and arrangements for project management	Proper arrangements considered to be in place
Making effective use of natural resources	Considered as part of our risk assessment of the Council's arrangements to make effective use of natural resources	Proper arrangements considered to be in place
Managing assets effectively to help deliver strategic priorities and service needs	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	Proper arrangements considered to be in place
Planning, organising and developing the workforce effectively to support the achievement of strategic priorities	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	Proper arrangements considered to be in place

Matters arising from the review of value for money

In addition to our work on the specified criteria we undertook detailed work to support our VFM conclusion. We have prepared separate reports in respect of this work and these are presented individually to the Audit Committee. The three local reports were:

- review of procure to pay project reported in June 2011
- project management review reported in September 2011 and
- financial resilience review to be reported in December 2011.

We identified these areas in our audit plan which was presented to you in December 2010. We have agreed the scope of each project with management prior to commencing the work. The purpose of each piece of work was to provide assurance on the arrangements in place and identify any areas for improvement.

These reports included detailed findings and recommendations, we have only included a short summary of our key findings from this work within this report.

Review of procure to pay (P2P) project

We reviewed the Council's arrangements to deliver procurement savings through its P2P project. We reported that the Council's project was clearly aligned to its corporate priorities and there was clarity at a corporate level in relation to the purpose of the project.

The P2P project initiation document was developed in April 2010 in advance of the planned start date for the delivery of savings over a three year period from 1 April 2011. We identified that whilst the project was developing, across 2010-11, there was a lack of clarity in the governance arrangements.

During the development of the project, the phasing of the planned £4 million savings to be delivered needed to change because the Council's budget was being revised to reflect a reduction in funding. The final position was agreed as part of the corporate support delivery plan in March 2011, with £1.2 million needing to be delivered in 2011-12. The Council believes that this target is prudent and should able to be achieved and probably exceeded.

At the time of our work the Council did not have a communications plan for P2P. We reported that this was likely to have had a detrimental impact on the engagement with stakeholders across the Council, making it less effective. Since our work the Category Management Project Board approved a combined communications plan for P2P and category management in July 2011.

At the time of our review we identified that the Council did not have a benefits realisation strategy for the project and we recommended that the performance management arrangements for the project needed to be developed as a matter of priority, including how financial and non-financial benefits would be measured and monitored. The Council has now taken action to address this. A benefits realisation process was adopted by the Corporate Management Team in August 2011 and this is being communicated to Departmental Management Teams during September 2011.

Project management review

We reviewed the Council's arrangements to manage projects and considered two projects to assess whether these arrangements were effective in practice. The projects reviewed related to:

- Compton Primary School enhancements, which was one of the first projects to apply the new procedures and
- Corporate accommodation strategy, because this is a significant project, phase one of which was due to be complete and phase two had been brought forward.

The draft procedures, which were developed in November 2010, mean that the Council now has a framework to manage capital and large revenue projects. The procedures were due to be approved as part of the Constitution by full Council in June 2011, but this was deferred until October 2011. As a result, the procedures have not yet been rolled out across the Council and the associated training programme has not been delivered.

Our review identified that the procedures include areas of good practice but that there were also a number of areas where they could be enhanced and made easier to use in practice. We recommended that the Council would benefit from reviewing the success of their application after a period of time and informing a subsequent review with feedback from those staff who have used them.

We found that Compton Primary School project followed the procedures effectively and that the project was delivered on time and within budget. The school opened in September 2011, as planned, and the key outcomes to expand the school in response to rising demand were met. Our review indicated that the project was led and managed well and a post implementation review is due to be undertaken in the near future.

The accommodation strategy is a council-wide change programme that incorporates new and different ways of working as well as rationalisation of the office accommodation. We found that the Council has made good progress, to date, in making improvements to office accommodation and rationalising the number of offices. However, we identified that there is scope for the overall arrangements to be strengthened to ensure that there is sufficient capacity and resilience to deliver the ambitious programme objectives effectively.

Financial resilience review

Our work in relation to financial resilience is currently being completed. We have performed sufficient work in order to conclude on the adequacy of the Council's arrangements and are finalising this in order to provide more detailed feedback to the Council in relation to those arrangements.

Based on the work we have undertaken, we have identified that there are strong arrangements in place with a small number of areas where further improvements could be sought. Consequently, we have concluded that the Council has adequate arrangements in place to secure VFM and is financially resilient for the future. We will report our detailed findings to the Audit Committee in December 2011.

A The reporting requirements of ISA 260

Purpose of report
The purpose of this report 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 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to 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.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the directors and auditors
The directors are 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 directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the 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.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

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 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.

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
- significant findings from the audit

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

	£
Audit services	
Statutory audit	335,978
Rebate from Audit Commission	(34,046)
Net audit fee	**301,932**
Other services	
Employer solutions review	3,500

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW.
Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

B Audit adjustments

Adjustment type

Misstatement - A change in the value of a balance presented in the financial statements
Classification - The movement of a balance from one location in the accounts to another
Disclosure - A change in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the Council's financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	60,217	Property plant and equipment Gross expenditure on childrens' and education services Revaluation reserve	Other land and buildings on the balance sheet was overstated by £59,246,000 Vehicles, plant, furniture and fittings on the balance sheet was overstated by £908,000 Intangible assets on the balance sheet was overstated by £63,000 Deficit on continuing operations in the comprehensive income and expenditure statement was understated by £56,647,000 Revaluation reserve was overstated by £3,570,000
Misstatement	4,932	Property plant and equipment	Community assets in property plant and equipment was overstated by £4,932,000 Vehicles, plant furniture and fittings was understated by £664,000 Infrastructure was understated by £4,268,000

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	10,326	Property, plant and equipment Revaluation reserve	Community assets on the balance sheet was overstated by £7,970,000 Revaluation reserve was overstated by £7,970,000 Revaluation of community assets was overstated by £2,356,000 Additions to community assets was understated by £2,356,000
Misstatement	2,899	Pension deficit Actuarial gain on pensions	Pension deficit on the balance sheet was overstated by £2,899,000 Actuarial gain in the comprehensive income and expenditure statement was understated by £2,899,000
Misstatement	400	Debtors Creditors	Short-term debtors on the balance sheet was overstated by £400,000 Capital contributions received in advance (creditor balance) was overstated by £400,000
Classification	378	Debtors Cash	Cash and cash equivalents balance on the balance sheet was overstated by £378,000 Short-term debtors on the balance sheet was understated by £378,000
Classification	212	Gross Expenditure on cultural, environmental, regulatory and planning services Taxation and non-Specific Grant Income	Taxation and non-specific grant expenditure was overstated by £212,000 Gross expenditure on cultural, environmental, regulatory and planning services was understated by £212,000
Disclosure	1,500	Long-term investments Long-term liabilities	Long-term investments at 31 March 2010 was understated by £1,500,000 Long-term liabilities at 31 March 2010 was understated by £1,500,000
Disclosure	n/a	Contingent assets Events after the balance sheet date	Contingent assets disclosure has been added to reflect the possibility of a receipt if the land at Plymouth Airport is sold Events after the balance sheet date disclosure has been brought up to date to reflect the current position

Adjustments to the group financial statements

The Council has updated the group accounts to reflect amendments to the Council's own accounts and changes between the draft and final accounts for the group entities.

Unprocessed adjustments to the Council's and group financial statements

There are no proposed adjustments to the Council's or group accounts which the Council has not made.

C Action plan

Rec No	Recommendation	Priority	Management comments	Responsibility and implementation date
1	**Fixed asset register** The new fixed asset register should be populated as soon as possible and a clear description of each asset should be included. A periodic reconciliation should be carried between the asset register and the Council's general ledger.	High	Agreed Implementation of the new data base is continuing, and the property element of the data base has recently gone live. The final reconciliations with the finance modules will now be undertaken including a review of the asset description.	Group Accountant Corporate Technical 31 October 2011
2	**Historic council tax debtors** Council tax debtors relating to pre-2000 should be written off and the bad debt provision reduced accordingly.	Medium	Agreed The write off of these debts will be completed and managed within the framework of our current financial regulations, and the associated bad debt provision reduced as appropriate.	Head of Value for Money 31 December 2011

Rec No	Recommendation	Priority	Management comments	Responsibility and implementation date
3	**Bad debt provision** The bad debt provision should be reviewed to ensure that it is based on a review of individual debtors and then on historic collection rates.	Medium	Agreed The Council has a number of bad debt provision accounts for various types of debt. For the majority of these debts, a full review of debtors is undertaken and the bad debt calculated accordingly. Problems with obtaining the information in the required format from the NNDR academy computer system meant the provision was based on an estimated percentage collection rate due to time constraints to produce the accounts. Work with the relevant suppliers has been undertaken to ensure the information will be available when required for future years, and this will enable a more detailed analysis of the individual debtor debts to be undertaken. However, due to differences in the operation of the collection fund which is based on estimated future collection rates and pro-rata'd across preceptors any impact on the final bad debt provision value is likely to be minimal.	Group Accountant Corporate Technical 31 March 2012
4	**Community assets** All assets currently classified as 'Community Assets' should be reviewed to ensure that they are classified correctly and accounted on the correct basis.	Medium	Agreed During 2010-11, Officers concentrated on the reclassification of Property Plant and Equipment assets, and leases, to deliver the accounts on an IFRS basis. Work has already commenced on the review of Community Assets in preparation for implementation of the new category of Heritage Assets from 1 April 2011, and some reclassifications have been made to the 2010-11 accounts in agreement with the auditor.	Corporate Accountancy and Finance Manager 31 March 2012
5	**Tamar Bridge and Torpoint Ferry Joint Committee** The Council, in partnership with Cornwall Council, should re-assess its accounting treatment of the Joint Committee to determine whether it should be incorporated within the single entity accounts of each council.	High	Agreed This will be re-assessed with Cornwall Council and the external auditors in 2011-12.	Corporate Accountancy and Finance Manager 31 March 2012