

Plymouth City Council

Annual Audit Letter 2010/11

November 2011



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1 Executive summary

Purpose of this letter

This annual audit letter ('letter') summarises the key issues arising from the work that we have carried out at Plymouth City Council ('the Council') during our 2010/11 audit. The letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this letter covers

This letter includes key messages and conclusions from our 2010/11 audit work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure value for money is achieved (Section 3)
- certification of claims and returns to various grant paying bodies (Section 4).

Responsibilities of the external auditors and the Council

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Context

In the current financial climate the Coalition Government's continuing priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time the Government has stated that it is their aim to reduce top-down government, and devolve power and give greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants

- changes to the Housing Revenue Account from April 2012 whereby councils will keep their own rental income but in return will take on a share of the £21 billion national council housing debt as part of a 30 year business plan
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

The Council has forecast that it will have a revenue funding shortfall of £35.1 million by 2013/14, with £15.7 million in 2011/12. It has delivery plans in place to achieve the savings in the current year and has identified, to date, a total of £26.0 million of delivery plans over the three year period.

Key messages

Our main audit conclusions for 2010/11

The financial statements gave a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Accounts audit

We were presented with draft financial statements and accompanying working papers on 30 June 2011, in line with the deadline. The financial statements had 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). The Council processed all of the proposed amendments identified through our audit work. We issued an unqualified accounts opinion on 23 September 2011, in advance of the 30 September 2011 deadline.

Value for money

We issued an unqualified VFM conclusion on 23 September 2011. Our work focused on arrangements in place during 2010/11, and up to when we signed our conclusion.

Certification work

We have certified all six of the Council's claims and returns required for 2010/11.

Key areas for Council action

We highlight the following key areas, where the Council has not yet completed our recommendations to further improve its arrangements in 2011/12:

- roll out the new draft project management procedures across the Council combined with the planned training programme
- continue to refine the financial planning and control arrangements to maintain strong financial performance in an increasingly challenging financial environment.

The context for these key messages is set out in this letter. A list of the reports issued during the year is at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure these recommendations are implemented as planned. Appendix B sets out our budgeted and actual fees for 2010/11.

Acknowledgements

This letter has been agreed with the Director for Corporate Support and presented to the Audit Committee on 16 December 2011.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
November 2011

2 Audit of the accounts

Introduction

We issued an unqualified opinion on the Council's 2010/11 financial statements on 23 September 2011, before the statutory deadline of 30 September 2011. Our opinion confirmed that the financial statements gave a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we were required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our annual report to those charged with governance to the Audit Committee on 23 September 2011 and summarise only the key messages in this letter.

We were presented with draft financial statements and accompanying working papers on 30 June 2011, in line with the deadline. The financial statements had 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).

The financial statements were accompanied by adequate working papers and finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information. This was particularly pleasing with the implementation of IFRS and the demand for finance resource in the current economic climate.

International Financial Reporting Standards (IFRS)

2010/11 was the first year that councils were required to prepare their financial statements under IFRS. We undertook a review of the Council's preparedness throughout 2010/11 and assessed the arrangements for re-stating each line of the balance sheet. Overall we rated the Council's arrangements as being adequate.

Robust arrangements were in place to collate all the required data for the restatement, with work streams across the Council's services covering all key accounting balances and transactions affected by the restatement. However, the figures for the balance sheet at 1 April 2010 and the comparative figures for 2009/10 were not finalised until the draft accounts were submitted for audit on 30 June 2011, which was after the timescale initially planned by the Council.

Our audit of the financial statements did not identify any significant amendments in relation to the IFRS restatement.

Audit of the accounts

Through our audit work we identified a small number of adjustments which were 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 was no impact on the General Fund balance

- the reclassification of £5.0 million of assets incorrectly included as community assets in the draft financial statements to infrastructure and vehicles, plant, furniture and fittings
- an increase in the value of the Council's share of assets in the Devon Pension Fund of £2.9 million due to a change between the Pension Fund's estimated asset value at the end of February 2011 and the year-end, resulting in an increase in total comprehensive income, this also did not impact the General Fund balance.

We are pleased to report that the Council responded very positively to our audit and all of the amendments we identified were processed by management.

We also recommended that the Council, in partnership with Cornwall Council, should re-assess its accounting treatment of the Tamar Bridge and Torpoint Ferry Joint Committee to determine whether it should be incorporated within the single entity accounts of each council in the future. This work is due to be concluded early in 2012, once the impact of IFRS11 - Joint Arrangements has been considered and following discussions with ourselves and the Audit Commission as auditors of Cornwall Council.

Financial performance

The Council reported a revenue overspend of £0.1 million (0.05%) against its 2010/11 revenue budget. In the current financial year the Council was forecasting an overspend of £0.6 million for 2011/12 at the end of September 2011. The anticipated outturn is a result of on-going pressures in the Community Services department relating to learning disabilities and older peoples mental health services.

We will continue to keep the Council's financial position under review as part of our 2011/12 audit and our VFM work on the Council's financial resilience.

Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work focussed on three main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 financial statements
- high level review of the general IT control environment.

Our work did not identify any control issues that presented a material risk to the accuracy of the financial statements.

However, we identified a number of areas where controls should be strengthened, including:

- strengthening arrangements for the authorisation of journals
- updating the new fixed asset register with all of the Council's assets, including all transactions relating to 2010/11, on a timely basis.

The actions agreed with the Council to address these recommendations were included in our interim report issued in June 2011 and our Annual Report to those Charged with Governance issued in September 2011. We will review progress against these as part of our 2011/12 audit.

Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the financial statements.

Audit certificate

We did not receive any questions or objections relating to the financial statements for the year ended 31 March 2011 and were able to issue our audit certificate on the same date as signing the accounts.

Whole of Government Accounts (WGA)

The Council submitted its draft WGA L Pack for audit to us on 5 August 2011. This was after the Department for Communities and Local Government (CLG) deadline of 29 July 2011 but in line with the extension the Council agreed with CLG.

We submitted the audited WGA L Pack to CLG by the deadline of 30 September 2011.

3 Value for money

Introduction

The Code of Audit Practice 2010 (the Code) 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.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

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

In discharging this responsibility, we were required to review and, where appropriate, examine evidence that was relevant to the Council's corporate performance management and financial management arrangements.

Key conclusion

We issued our annual VFM conclusion on 23 September 2011, at the same time as our accounts opinion, before the statutory deadline of 30 September 2011. We concluded that, for 2010/11, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Value for money projects undertaken during the year

In addition to our work on the specified criteria, we undertook detailed work to support our VFM conclusion. We have presented to the Audit Committee reports on our reviews of:

- the procure to pay project in March 2011
- project management in September 2011
- financial resilience in December 2011.

Review of procure to pay project

We reviewed the Council's arrangements to deliver procurement savings through its Procure to Pay (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 delivery of the planned £4 million savings 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 identified as needing to be delivered in 2011/12. The Council believed that this target was prudent and should be achieved, and probably exceeded.

At the time of our work the Council had not developed 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 was communicated to Departmental Management Teams during September 2011.

Project management review

We reviewed the Council's arrangements to manage projects and assessed two projects in more detail to establish whether these arrangements were effective in practice. The two projects we reviewed related to:

- Compton Primary School enhancements, which was one of the first projects to apply the new project management procedures
- 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, meant that the Council had developed 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 because a number of significant issues were not resolved following discussion by members.

A further delay has been incurred due to a working group of members undertaking a review of the Constitution in September 2011 which requires some re-drafting. This is currently underway. The revised version will be re-considered by the working group before it is taken back to full Council for approval. This position was reported to full Council in October 2011 although the timetable for completion of this was not stated. As a result, the project management procedures have not yet been rolled out across the Council and the associated training programme has not been delivered.

Our review concluded that the procedures included a number of elements of good practice. We also identified some areas where the procedures 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 using this to inform a subsequent review utilising feedback from those staff who had used them.

In reviewing the specific projects, we found that the 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 outcome to expand the school in response to rising demand was met. Our review indicated that the project was led and managed well and a post implementation review was 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. The main area where we considered that the Council should maintain its focus was in ensuring that the overall arrangements were robust and that there continued to be sufficient capacity and resilience within the team to deliver the ambitious programme objectives effectively.

Financial resilience

We have reviewed the Council's arrangements for financial planning and control to assess whether these are sufficiently robust to meet the current challenges within the financial environment that the Council is operating within. Our review assessed the overall corporate arrangements in place with a more detailed review of two specific departments:

- Community Services which had overspent its budget in recent years
- Corporate Services which underspent its budget in 2009-10.

Over the last few years the Council has continued to develop and refine its financial planning and monitoring arrangements. Our review found that its financial resources have been clearly aligned to its corporate priorities. The Council produced a revised Medium Term Financial Strategy (MTFS) in May 2011, following the Government's CSR in October 2010 and settlement in December 2010.

The MTFS forecasts that the Council will have a revenue funding shortfall of £35.1 million by 2013/14, with £15.7 million of this in 2011/12. It has developed delivery plans to achieve the savings in the current year and has identified, to date, a total of £26.0 million of delivery plans over the three year period. The Council has adopted a prudent approach by not including a delivery plan saving until the detail of how and when it will be achieved has been confirmed.

There is a consistent approach across the Council to budget setting and identification of delivery plans, both within services and for cross-cutting delivery plans which are held and managed within Corporate Services. Budgets and delivery plans are challenged between departments, by members and other key stakeholders enabling them to be refined to reflect the city's priorities. Changes to the budget are appropriately reflected in each service.

In 2009/10 the Council only overspent its budget by £0.1 million (0.05%). At the end of September 2011 it forecast an overspend of £0.6 million (0.27%) for 2011/12. This indicates that the Council has strong arrangements in place to ensure that it maintains tight financial control over its revenue budget.

The current overspend is attributed to on-going pressures in Adult Social Care in learning disabilities and older people mental health services. However, at the time of our review, there were also £1.7 million of delivery plans which were red rated and £5.3 million that were amber rated meaning that there is a risk that up to 44% of the original planned savings may not be realised in the year, requiring alternative schemes being put in place to address this..

The Council should ensure that where there is a risk that a delivery plan will not be achieved that alternative plans are introduced at the earliest opportunity. It is currently not clear within the quarterly Finance and Performance reports to Cabinet how some red rated delivery plans will be achieved in the current financial year or how they impact upon the forecast outturn as the value of red rated delivery plans exceeds the current forecast overspend.

To further develop the existing budget setting arrangements the Council should consider developing its use of zero based budgeting rather than focusing on changes to each budget on an annual basis. Whilst we recognise that many services are demand led, there is scope to more accurately predict the demand for those services where the population using them does not significantly change from year to year, for example learning disabilities and some mental health services.

Approach to local VFM work 2011/12

At time of writing there are no changes proposed to the approach to local value for money work in 2011/12. We will continue to focus on the two key reporting criteria, namely:

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

We will determine a local programme of VFM project based work after completing our audit risk assessment, informed by the criteria above and our statutory responsibilities. Work is in progress to prepare our audit plan for 2011-12 and agree this with the Council.

4 Certification work

Each year we review and certify a number of claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

We are currently in the process of certifying the 2010/11 claims and returns. Once this work is complete we will report in full on the findings of our work.

The outcome of this work will be included within our separate certification work report which will be presented to the Audit Committee at a future date.

A Reports issued in 2010/11

Report	Date Issued
Audit fee letter	March 2010
Audit plan	December 2010
Review of P2P project	June 2011
Interim report and update to financial audit plan	June 2011
Report to those charged with governance (ISA 260)	September 2011
Project management review	September 2011
Financial resilience review	November 2011
Annual audit letter	November 2011
Certification work report	December 2011

B Audit and other fees for 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Financial statements	£220,066	£220,066
Value for money conclusion	£115,912	£115,912
Total Code of Practice fee	£335,978	£335,978
Certification of claims and returns	£55,000	Work in progress
Employer solutions review	N/A	£3,500



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