Plymouth City Council

Annual report to those charged with governance (ISA 260)

September 2012

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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 audit of the Council's financial statements for the year ending 31 March 2012.

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 2012, 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

Following certification by the Council's Section 151 Officer, we were presented with draft financial statements for audit by the statutory deadline of 30 June 2012.
A number of adjustments have been made to the disclosures supporting the main financial statements, which include material amendments to the disclosures used to support the figures for Property, Plant and Equipment. None of these amendments have an impact upon the net assets or liabilities of the council. Further details have been added to supporting disclosure notes for Heritage Assets to ensure greater transparency of the method of valuation. A Post Balance Sheet Event has been added to the financial statements as a result of the movement of funds amounting to £21m for Local Enterprise Partnership (LEP) funding. In August 2012, Devon County Council took over the administration of this fund. None of the audit adjustments have resulted in changes to the reported outturn of the Council as at 31 March 2012, or reserves and balances.

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 28 September 2012. We are currently reviewing information that has been brought to our attention in relation to capital expenditure within the Highways and Transport Service. We will update our value for money conclusion when extra work has been completed in this area.

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 currently performing additional testing as a result of information that has been brought to our attention. We will update our value for money conclusion once this work has been completed.

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 Head of Finance and the Director for Corporate Services. We have made a number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Head of Finance and the Director for Corporate Services.

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 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 2012

2 Key audit issues

Matters identified at the planning and interim stages of our audit

We report our findings in line with our planned approach to the audit which was communicated to you in our Audit Plan 2011-12 presented to the Audit Committee in March and updated in our interim report presented to the Audit Committee in June 2012.

Our response to the matters identified at the planning and interim stages are detailed below.

Issue	Audit areas affected	Work completed	Assurances gained
Community Assets	Accounting for Property, Plant and Equipment	• A review of the classification of assets undertaken by the Council as part of their review for Heritage Assets has identified a number of assets that have been categorised incorrectly. A list of the errors have been submitted to us and the amendments required are not material in total. We have discussed the findings with the Council since they have been identified in order to ensure the correct treatment is applied.	• Our audit has examined the amendments made. We have tested the reclassification of assets and ascertained that the corrections made are in accordance with accounting standards. No further amendments have been required as a result of this review. None of the adjustments individually or in total were of a material nature and we have agreed that a prior year adjustment is not required. All corrections have been in made in 2011/12 balances.

Issue	Audit areas affected	Work completed	Assurances gained
Heritage Assets	Accounting for Property Plant and Equipment	• We have discussed the change in accounting requirements and undertaken an initial review of the Council's arrangements for the identification of heritage assets to ensure compliance with the principles of FRS30 which are adopted by the Code for the first time in 2011-12.	• Our testing confirmed that heritage assets have been accounted for correctly in accordance with FRS30. We have suggested that further disclosure is made with regards to the methodology adopted for valuation of Council owned and donated assets. Management have agreed to make these amendments to the disclosure notes.
Adoption of the new asset register	Accounting for Property Plant and Equipment	• We have reviewed the processes in place in respect of the adoption of the new asset register, in particular the reconciliation exercise that has been undertaken. We have held regular discussions with the Council's officers in respect of the changes arising from the reconciliation and any impact on the disclosure notes in the accounts.	• Our work has tested the opening balances of all asset categories within the Techforge asset register and found these to be materially correct. We have reviewed the disclosures within the accounts and found that adjustments have had to be made for Academy schools of £68m and disposals of £1.1m due to an inaccurate categorisation being used. A further £4.4m adjustment has been required to correctly classify assets within 'other land and buildings' as 'assets under construction'.
Life centre and impairment of the Mayflower Centre and Swimming Pool	Accounting for Property Plant and Equipment	• We have discussed the valuation and impairment of the asset with the Council and reviewed the accounting entries now that it has been brought into use. The accounting treatment has been discussed and agreed through the regular discussions between officers and ourselves.	• We have gained assurance that the Council has appropriately accounted for the Life Centre and Mayflower Centre as part of the PPE balances for 2011/12.

Issue	Audit areas affected	Work completed	Assurances gained
Tamar Bridge and Torpoint Ferry Joint Committee – inclusion within the single entity accounts	**All areas of the financial statements**	• As highlighted in our ISA260 Report last year, we have continued to discuss and review the accounting treatment of the Joint Committee with the Council and the Audit Commission – auditors of Cornwall County Council. This review has concluded that both Councils will have to restate the opening balances for 2010, 2010/11 and 11/12 to incorporate the financial activities within the single entity accounts rather than as a group activity, based upon information provided by Cornwall Council. We have tested the prior year adjustments for all balances affected by the inclusion of the Tamar Bridge figures within Plymouth's accounts; namely 1 April 2010, 2010/11 and 2011/12. We have sought assurances from the auditors of the Tamar Bridge Joint Committee for the 2011/12 balances.	• Our audit work has concluded that the prior year adjustments made to Plymouth's accounts with regards to the inclusion of the Tamar Bridge and Torpoint Ferry figures are materially accurate and can be further supported with assurances from the auditors of the Joint Committee. As per the 1957 Act, Plymouth are liable for 50% of loans taken out to finance improvements to the bridge. This has been treated as a long term liability within the accounts. We have, however, recommended that both Plymouth and Cornwall Councils draft a formal document which outlines the roles and responsibilities of both Councils for assets and liabilities. We will await assurance from the Joint Committee's Audit Committee that the accounts have been adopted on 28 September 2012 prior to issuing our opinion.

Table 1: Key accounting risks and planned assurances (continued)

Issue	Audit areas affected	Work completed	Assurances gained
Mount Edgcumbe	Accounting for Property, Plant and Equipment	• Mount Edgecumbe is included in the accounts as an operational asset and therefore should be valued as such. The land is a community asset and is valued at £1.00. The classification and the use of this asset will be examined as part of the Property, Plant and Equipment testing undertaken during final accounts.	• We have reviewed the classification of the land and buildings of Mount Edgcumbe and concluded that the classification is correct.
Group Accounts Proposal	Group account reporting	• The Council are proposing not to produce Group Accounts for 2011/12. It has been agreed that a review of the explanation and judgements will be undertaken during the final accounts.	• We have reviewed the Council's assessment of Group Accounting following the move from Tamar Bridge and Torpoint Ferry out of the group and into the single entity accounts. We have concluded that the Council have performed an adequate review of the need to produce group accounts and that these are not required.
Embedded Leases	Accounting for Property, Plant and Equipment & Leases	• All service contracts have been reviewed for the likelihood of embedded leases and concessionary services. This has been performed by PWC and the results of this will be reviewed. As part of the final accounts audit the accounting treatment in respect of service contracts and any new embedded leases will be examined.	• We have reviewed the process that the council has undertaken to assess lease accounting. Our testing has concluded that leases are materially correct.
St Boniface School	Controls assurance	• We will consider the impact of the investigation into mismanagement of funds at St Boniface and assess if there are any further implications for our testing of school balances.	• We have reviewed the assessment made. We have tested the VAT creditor which the council has had to account for following the fraud. We have also reviewed a sample of additions within schools and concluded that these have been accounted for correctly.

Issue	Audit areas affected	Work completed	Assurances gained

Table 2: Additional key accounting risks and planned assurances (continued)

Issue	Audit areas affected	Work completed	Assurances gained
Annual Leave Accrual	**Employee Remuneration**	• We have discussed the Council's proposed approach for calculating the annual leave accrual and will test this in detail as part of our final accounts audit. This is the same basis as agreed with us in previous years.	• We have reviewed the estimation process and estimate arrived at by the council. We have concluded that the estimate for Annual Leave Accrual is based upon appropriate information and that the methodology adopted is acceptable.
Icelandic Banks	**Investments**	• The Council are proposing not to make an adjustment in respect of the Icelandic Bank deposits due to the uncertainty of the cash flows and the currency used for settlement. As in previous years, this is a deviation from the LAAP guidance. We will consider whether the Council's proposed treatment, together with additional disclosure notes, is reasonable as part of our detailed final accounts procedures.	• The Council have decided to deviate from LAAP 82 guidance and not account for estimated funds to be received as per the LAAP guidance. We have noted this deviation in this report. We have also assessed the adequacy of the disclosure note to the accounts and agreed this to supporting documentation. We have identified this deviation from recommended practice as an unadjusted mis-statement for approval by those charged with governance.

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Plan 2011-12. Our audit is substantially complete although we are finalising our procedures in the following areas:

- further testing on capital transactions within the Highways and Transport service;
- further analysis and review of the reconciliation between payroll and the general ledger;
- review of the financial instruments balances
- 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; and
- receipt of confirmation from the Tamar Bridge and Torpoint Ferry Joint Committee that there are no issues which would impact upon the validity of the financial assets, liabilities and income and expenditure of the balances within Plymouth City Council's accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Council's Audit and Governance Committee on 27 September 2012 and the Tamar Bridge and Torpoint Ferry Joint Committee's meeting on 28 September 2012.

We were presented with draft financial statements for audit, following certification by the Council's Responsible Finance Officer, by the statutory deadline of 30 June 2012. We recognise that the quality of working papers have improved over the last year and we will continue to discuss with officers where they can be improved further, such as ensuring there is sufficient supporting information for new balances or where there have been material transactions as well as ensuring that the final version of working papers have been maintained. We have suggested a number of grammatical and presentational changes which management have agreed to process.

Misstatements

There are no misstatements within the accounts that would have an overall impact upon the resources of the Council.

Amendments have been made to the balances within Property Plant and Equipment relating to the previous year's balances and these have resulted in an overall increase of £3.5m to the asset balance of the Council. There have been a number of disclosure note changes which do not have an impact upon the reported figures for Property Plant and Equipment. These and other amendments are detailed in the following paragraphs.

Capital Accounting

Tamar Bridge and Torpoint Ferry Joint Committee – inclusion in the Council's single entity accounts

As part of our 2010/11 audit, we concluded that the Council should include the financial activities and balances for the Tamar Bridge and Torpoint Ferry's accounts within both Plymouth City Council's and Cornwall Council's single entity accounts. This was as a result of our review which concluded that the arrangement should be classed as a Joint Operation rather than as a group arrangement. We discussed this view with the Auditors of Cornwall County Council, the Audit Commission, who agreed that this was the appropriate approach.

During the course of 2011/12 we have had detailed discussions with both the Council and the Audit Commission on how the balances should be treated in both sets of accounts.

As a result of this agreed revision, the council have restated the balance sheet and comprehensive income and expenditure account for the opening balances for 2010/11 and 2011/12. For 2011/12 this has resulted in an increase in long term assets of £112m, current assets £1.6m, current liabilities £1.7m, long term liabilities £10.3m giving a net asset increase of £102m. There has also been an increase in the General Fund of £1.4m and unusable reserves £101m. A prior year adjustment note has also been added to the accounts in accordance with accounting standards.

Fixed Asset Restatement including review of Community Assets 2010/11

During the course of the year, the Council undertook a detailed review of the transactions within the asset register – Techforge, following its implementation at the end of 10/11. As a result of this exercise, and the review of Community Assets as recommended in the 2010/11 ISA 260, the Council identified a number of errors which related to the classification of some assets. The errors identified relate to

2010/11 balances and have been corrected in the 2011/12 accounts. In summary the most significant of these errors identified were:

- Other Land and Buildings - upward revaluations of £1.267m as a result of being able to establish upward and downward revaluations separately as opposed to netting off.
- Other Land Buildings – Additions - £2.3m and £389k as a result of two projects being previously classed as Assets Under Construction and Community Assets.
- Other Land and Buildings – reduction of £2.1m as a result of land relating to a Trust school still being included in the balance incorrectly. Actual value of land removed was £149K, difference in write out to CIES and RR
- Other land and Buildings – included £2.4m which should have been classified as Assets Under Construction and £4.6m which should have been moved from Assets under construction to other land and buildings in 2010/11. These amounts have been moved to the correct category.

- The amendments highlighted have all been reviewed and accounting treatment, valuations and movements tested. We have concluded that the entries have all been processed correctly in the 2011/12 accounts. The result is a net increase in asset balances of £53K for 2010/11.

As part of this exercise, the Council identified one asset which had been classified as a Community Asset in 2010/11. Upon further investigation it was found that this asset was an operational office space – East End office space, and should have been classified under Other Land and Buildings. The East End asset had been fully depreciated over the course of five years and had a nil book value. This accounting treatment is correct for an operational asset but not for one that is classified as a Community Asset. In effect, the asset had been accounted for correctly, but was included in the incorrect classification. The asset has now been moved to the Other Land and Buildings category in 2011/12 - this is the correct classification. However, in accordance with the Council's valuation policy all operational assets are revalued every five years. The East End office space asset has not and needs to be. The Council have added this asset to the revaluation programme for 2012/13. It is unlikely that the asset would be valued at a material amount given the size of the asset and current economic conditions. We do however; recommend that the Council ensure that it is revalued in 2012/13.

Assets Under Construction

£4.9m was incorrectly transferred out of Assets under Construction to Other Land and Buildings during 2011/12. The asset had not been completed and this amount should have remained in Assets Under Construction. An amendment has now been made to transfer this amount back to the correct category.

Accounting for Academy Schools

In 2010/11 the Council accounted for seven schools that had moved to academy status. The Council correctly impaired the values down in other land and buildings from £61m to nil which is the accounting treatment required when a school moves to academy status and out of the Local Authority control. However, the Council did not disclose the impairment as impairment, but incorrectly as a reduction in valuation.

In the 2011/12 accounts, the Council then sought to remove the assets GBV and Acc Depreciation and impairment from the Disclosure note. This was shown as disposals on the disclosure. An additional in year spend of £7m and matching impairment was also written out as disposals increasing the value to £68m. As the assets were leaving the Council's control rather than being offered to the market, the correct accounting disclosure to remove the balances from the note would be to show as other movement rather than disposals.
The Council have now amended the disclosure note to the Balance Sheet to show the brought forward amount as an impairment and moved the £68m from the disposals line to other movement. There is no impact upon the net assets of the councils as the asset values had already been impaired down to nil.

Given the issues faced with the balances for Property, Plant and Equipment this year we recommend that the Council perform a detailed review the transactions in the balance sheet and associated notes prior to submission for audit in 2012/13.
The Council will need to ensure that the East End office space is revalued in 2012/13.

Audit Fees

Our audit identified that the amounts paid to ourselves as external auditors had been incorrectly disclosed. The Council have amended the accounts to show the correct audit fees payable as follows:

- Main audit fee has been amended from £309k to £302k.

- Grants fee (estimate) has been amended from £106k to £80k – estimate for 2011/12 is now disclosed correctly as £52k

Post Balance Sheet Event

In 2011/12 the Council agreed to be the accountable body for the funds relating to the Local Enterprise Partnership (LEP) for the Devon wide initiative. The total amount of grant received by the Council for the LEP was £21m and has been included in the accounts as an amount within the cash balance. A corresponding creditor was established to ensure that there was no overall impact upon the Council's reported funds for the year. On 4 August 2012, Devon County Council agreed to take over the accountable body responsibility for this fund. As a result, Plymouth transferred the £21m on 6 August 2012 to Devon County Council. The Council have added a post balance sheet event to this effect.

Unadjusted Misstatements

Impairment of Icelandic Bank balances

As in previous years, the Council have deviated from the guidance provided by CIPFA in their LAAP bulletins. For 2011/12, new guidance was issued in LAAP 82 bulletin which identified that Councils who had investments with Icelandic banks prior to their collapse should account for any income received in year. The guidance issued in May 2012, identified that Council's account for the estimated return of investments from Glitnir and Landisbanki in full setting out a period of time when the proportions would be paid.

The Council have accounted for the actual payments made in year. This totals £1.284m and the original impairment of £5.9m has been reduced by this amount. Of the £1.284m, £636k was received after the end of the year. The Council originally classed this as a post balance sheet event. We did not agree that the receipt of this income was fundamental enough to be classed as a post balance sheet event and the Council have now amended the wording in the disclosure note.

The Council have made full disclosure of their approach and the amounts received in year. If the Council were to include the full amount owed to them there would be a reversal of the loss of £3.467m in investment income accounted for in the financial statements. As the Council has not followed the guidance set out in the LAAP bulletin, we have raised this as an unadjusted mis-statement for those charged with governance to consider.

We recommend that the Council complies with LAAP guidance on the accounting for the impairment of Icelandic Banks investments.

Pre 2000 Council Tax debt - write off

As a result of our recommendation made in the 2010/11 ISA260 report the Council has agreed to write off the long term debt related to Council Tax. This amount is £4.742m and has been fully provided for in past years' accounts. However, the Council has continued to receive payments in relation to this debt, and have agreed that they will revise the outstanding figure once this information is known and write out the debt in 2012/13. We would emphasise that writing off the debt does not preclude the Council from continuing to chase and recover outstanding amounts but presents a clearer position in relation to the level of debts likely to be recovered.

We recommend that the Council should write out the final figure for Council Tax debt prior to 2000.

Reconciliation of Payroll to the General Ledger

The Council do not perform routine reconciliations between the payroll system and the general ledger. The automated process is checked by the payroll manager each month in order to verify that the correct figure has been posted to the general ledger but there is no official control account or reconciliation.

We have attempted to reconcile the transactions processed between the Payroll system and the general ledger. Our work identified that the Payroll system totalled £1.7m more than the figure within the general ledger. We have requested that management review this reconciliation and aim to rectify this imbalance prior to us issuing our opinion. Management are in the process of performing additional work.

We recommend that monthly reconciliations are performed between the payroll system and the general ledger and formally reviewed.

Governance Arrangements between Plymouth City Council and Cornwall County Council

We reviewed the transactions relating to the Tamar Bridge accounts as part of our audit. As part of this review we examined the accounting treatment for the loan. Plymouth are liable for 50% of this loan in accordance with the 1957 Act. The Council have correctly included 50% liability for the loan taken out by Cornwall Council on behalf of the Tamar Bridge and Torpoint Ferry Joint Committee as the Committee is not a legal entity and therefore cannot obtain loan debt. Under the Joint Operation agreement and the 1957 Act, Plymouth Council has to account for 50% of the outstanding debt on this loan. This currently amounts to £8.9m. Following the adoption of the balances in the single entity accounts, neither Council have formalised the roles and responsibilities of assets, liabilities and accounting technicalities. We therefore recommend that a formal memorandum of understanding is drafted and agreed and adopted by the Cabinet at both Councils.

Other Statutory audit requirements

In accordance with ISA600 – Special considerations - audit of group financial statements, we are required to perform an audit of the figures submitted by the Council to the National Audit Office to conform with the requirements of Whole of Government Accounts. We are currently in the process of completing this work and will update Members on the outcome at the Audit Committee on 27 September 2012.

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. We reported our findings of our internal control work in our interim report to the Audit Committee in June 2012.

Journal entry controls

Journals are used to process manual changes to data within the financial ledger. The Council has procedures in place that define which members of staff may input journals. However, as highlighted in our audit risk assessment, the Council do not have adequate procedures in place to evidence the authorisation of journals processed.

As a result of our risk assessment we tested a sample of 137 journals processed by the Council to ensure they have been appropriately posted and are supported by relevant information. We concluded from this testing, that the journals reviewed had been appropriately posted and supported by relevant information.

Review of Information Technology

We performed a high level review of the general information technology (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. Our audit did not identify any issues that would pose a risk to the accounts.

Head of internal audit opinion

The Head of Internal Audit has issued his opinion on the effectiveness of the system of internal control and provided a reasonable level of assurance in respect of the areas reviewed during the year.

Management of the risk of fraud

We have sought assurances from the Head of Finance and the Chair of the Audit and Governance Committee in respect of processes in place to identify and respond to the risk of fraud at the Council. 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

We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we have read the AGS and considered whether the statement is consistent with our knowledge of the Council.

We reviewed the draft AGS and, following additional disclosure in respect of whether financial management arrangements comply with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government, we consider the document to be satisfactory in terms of content, a fair representation of Council operations during the year and in line with the Code.

Public questions

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

We have not received any public questions on the 2011/12 accounts.

We have been provided with certain information which relates expenditure charged to capital within the Highways and Transport Service. We are in the process of performing additional work in this area and will update Members at the Audit Committee.

Next steps

The Audit Committee is required to approve the financial statements for the year ended 31 March 2012. 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 2011-12 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

Ours work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. We have also performed a review of the achievement of strategic priorities, management arrangements for waste and a follow up of 2010/11 VFM recommendations. The findings from our reviews are detailed below:

Code criteria	Work completed	Conclusion
Having a sound understanding of costs and performance and achieving efficiencies in activities	Considered as part of our risk assessment of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and our financial resilience review.	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 risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	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 financial resilience review	Proper arrangements considered to be in place – recommendations made to improve reporting on the achievement of strategic priorities and objectives linked to financial and performance planning

Code criteria	Work completed	Conclusion
Promoting and demonstrating the principles and values of good governance	Considered in our review of the Council's Financial Resilience, our review of the Annual Governance Statement and the review of the achievement of strategic priorities	Proper arrangements considered to be in place
Managing risks and maintaining a sound system of internal control	Considered in our review of the Council's arrangements to secure financial resilience and our review of the Annual Governance report	Proper arrangements considered to be in place – recommendations made to improve the progress reporting of Internal audit.
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 waste management arrangements are robust and will be further enhanced through improved reporting on waste management as a result of the energy from waste initiative.
Managing assets effectively to help deliver strategic priorities and service needs	Considered as part of our review of the Councils s achievement of strategic priorities.	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 review of the Council's achievement of strategic priorities and financial resilience.	Proper arrangements considered to be in place. Recommendations made to review the sickness absence level of the current workforce.

Securing financial resilience and economy, efficiency and effectiveness

As part of the work informing our 2011-12 Value for Money (VFM) conclusion we have considered whether the Council has appropriate financial systems and processes in place to manage its financial risks and opportunities and to ensure that there are robust medium to long term financial planning arrangements to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- key indicators of financial performance;
- its approach to strategic financial planning;
- its approach to financial governance; and
- its approach to financial control.

Our overall conclusion was that the Council has sound arrangements in place. Our review identified a small number of areas where these could strengthened further. We recommend that the Council improve the information provided to Cabinet linking performance against targets, medium term financial planning and monitoring and the achievement of strategic priorities so that the progress made against the corporate plan is more transparent in the future.

Key Indicators of Performance

in 2011/12 we used the Audit Commission benchmarking tool which analyses key indicators for 2009/10 and 2010/11. Where possible, we updated this information from our knowledge of the 2011/12 audit work e.g. working capital and sickness absence. Our analysis indicated that Plymouth have followed the performance trends for its benchmark group across the majority of areas, with the exception of the working capital ratio.

Working capital – a prudent working capital ratio of 2:1 is recommended to ensure immediate liabilities can be covered. At 1.21:1 for 2010/11, the Council is some way short of this prudent target. The 2011/12 financial statements show that this ratio has deteriorated further to 1.09:1 Management have concluded that there is no obvious reason for this other than it is in accordance with the Council's treasury management strategy.

We have made specific recommendations to encourage the council to continue to review the working capital position over the medium term. The Council will continue to do this in line with the Treasury Management Policy.

Sickness absence at 8.7 days is still higher than the target of 6 days, but is improving from the 2009/10 average level of 10 days per employee. The Council are continuing to work on this area and reviewing the target level of 6 days to ensure that consideration is given to the possible disparity of working requirements between manual and clerical staff.

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Strategic Financial Planning

The Council has strong arrangements in place to plan the finances of the council over the next three years. In particular, its strategic financial planning incorporates finance and performance management reporting, scenario planning on income and expenditure levels, considered central government funding, and income levels linked to corporate priorities and targets for NNDR, council tax and fees and charges. The Medium Term Financial Plan is a comprehensive document modelled on the achievement of corporate priorities and objectives. Consideration has been clearly given to the financial challenges beyond 2012/13 with an appreciation that financial plans will need to be continually revised to address developments both locally and on a national level.

We have recommended that the Council reconsider the use of zero based budgeting as a more effective approach. A review of the budget setting process will take place during the 2012/13 financial year - this is an opportune time to evaluate the budget setting process. We have also suggested expanding the use of scenario planning to capital and treasury management reviews.

Financial Governance

The council has sound governance arrangements for financial planning and monitoring and reporting. In 2011/12 the council introduced a scrutiny regime to plan and agree the budget for the forthcoming year with officers, members and, importantly, key partners. The arrangements included away days for members and officers with members being given the opportunity to challenge draft budgets prior to their finalisation, ensuring that savings plans and budgets were closely linked to corporate plans and visions. We have suggested improvements to the reporting of performance data, in particular, we have recommended that the Council now moves towards better integration of performance reporting and using this to highlight the achievement of the Corporate objectives.

Financial Control

The Council has a good track record of achieving its planned budget. The Council reported a planned overspend of £113k in the draft financial statements for 2011/12. We found the budget setting process to be robust involving senior officers, members and partner organisations with a well-developed challenge process The Council has achieved its savings target of £20m for 2011/12 although recurrent savings are still required in order to deliver the medium term financial stability of the council.

Internal audit provide a good service that meets the CIPFA standards. During the course of the year, as detailed in our interim report, we have recommended that Internal audit improve the reporting of progress against plan to the Audit Committee and we continue to work with the Devon Audit Partnership and the Audit Committee to ensure that detailed information is reported to Members.

Further details from our review will be reported separately.

Overall review of the Council's achievement of strategic Priorities.

Our audit plan included a review of the Council's ability to achieve its overall strategic priorities and objectives. Our work reviewed this in conjunction with the achievement of performance targets and service redevelopment.

We concluded that the Council has made sound progress over the past year to ensure that corporate priorities and plans are acted upon and we recognise the successes achieved by the council particularly in the Revenues and Benefits service. In particular, the Council has appropriate arrangements in place to identify high cost / low performance areas and where additional efficiencies are required, and can be delivered, within the context of the strategic priorities.

We recommended that the Council:

- could further improve service delivery plans by highlighting the transparency of the links with the Councils priorities. In particular, there is the opportunity to expand the current resource delivery plans to demonstrate how existing resources, and not just savings, are allocated to directorates to deliver on priorities;
- has scope to further improve the information presented to members to show how the Council is achieving against their top level priorities and any further actions that may be required to ensure their successful delivery;
- expand upon the information reported through the quarterly finance and performance outturn reports on the actual achievement of the top level objectives; and
- could consider increasing the transparency of the information around the shared priorities where there is scope to produce updates on how it is working on delivering these and therefore the progress made, to date, on achieving the strategic outcomes.

Follow up of 2010/11 Recommendations

In 2010/11 we reviewed the Procure to Pay and Project Management processes within the Council.

Following our review we issued two separate reports which included recommendations agreed by management.

Procure to Pay Review

In 2010/ 11 we made fourteen recommendations which management agreed to implement. We are pleased to note that improvements have now been made to the project structure and governance arrangements, the role of the project manager and project budgeting. The project risk register now includes a RAG rating assessment for main and residual risks. Services now understand the importance of ensuring that there are clear specifications communicated to buyers and whole life costing is now further considered. The Council have yet to implement four recommendations and are in the process of reviewing these and timetabling revised dates. These recommendations are in the following areas:

- an issues log that includes all issues for Procure to Pay schemes
- the development of a project communication plan
- monitoring of the Procure to Pay savings target; and
- the development of benefit profiles

Project Management Review

In 2010/11 we agreed ten recommendations with management aimed at improving procedures and processes, clarification of the role of managers, understanding and learning from outcomes publicising successes and developing an accommodation strategy. We are pleased to note that management have implemented seven of these recommendations and have agreed to implement the remaining three by March 2013.

We have discussed these findings with management and our work and conclusions are contained in our more detailed report.

Overall Conclusion

We are currently performing additional work following further information that has been brought to our attention. We will update our assessment on value for money once this work has been completed.

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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 2012.

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 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 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, and 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 and Governance 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 2012 are as follows:

	£
Audit services	
Financial statements and Value for Money	302,380
Certification of claims and returns (estimate)	50,000

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 financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Disclosure	68,000	Academy Schools	Disclosure only – reduction of revaluation value of £68m 2010/11 note 12 Increase in impairment of £68m 2010/11 note 12 Decrease disposal disclosure amount £68m note 12.1
Disclosure	Various	Errors identified for 2010/11 balances across PPE, Surplus assets and Assets held for sale notes.	Disclosure note added to explain movement posted in 2011/12 for 2010/11 errors in PPE balances for other land and buildings, Assets Under Construction. Also added to the Surplus Assets and Assets held for Sale notes.
Misstatement	4,400	Assets Under Construction Other Land and Buildings	Increase of £4.4m Decrease of £4.4m No impact on overall PPE balance
Disclosure	7	CIES Audit Fees	Decrease main audit fee in disclosure by £7k
Disclosure	26	CIES Audit Fee	Decrease audit fee Certification fee £26k
Disclosure	52	Audit Fees	Identify the estimate for Certification work for 2011/12 separately as £52k being part of the £81k in the note.
Disclosure	21000	Creditors Cash Investments	Post Balance sheet Event only – add in disclosure of a PBSE that the LEP funding has now transferred to Devon County Council.

Adjustment type	£000	Account balance	Impact on financial statements
Disclosure	N/A	Pension fund disclosure note 35.11	No effect on primary financial statements. Updated disclosure only to include the correct discount rate of 4.6% not 5.5%
Disclosure	N/A	Tamar Bridge Pension note 35.11	Updated to include pension increase rate of 4.6% and not inflation.
Disclosure	N/A	Icelandic banks disclosure note	No effect on accounts – disclosure note amended to state that the £636k received after 31 March 2012 is not a post balance sheet event.
Disclosure	19,000	Heritage assets Note 13	No effect on accounts – disclosure note only – revised to include reference to how heritage assets have been valued and how donated assets are valued.
Disclosure	N/A	Employee Remuneration note – Tamar Bridge	2010/11 banding £50-£55k movement of 72k to 71k 2010/11 banding £60-£65k movement of 43-42 2011/12 banding £50-£55k movement if 61-60

Unprocessed adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	£3,467	**Icelandic Banks**	Investment balances would increase £3.467m CIES reversal of impairment (loss) £3.467m Associated entries in in the MIRS and CAA.
Write off of debt	£4,700	**Bad debt provision – Council Tax**	Disclosure note outlining the bad debt provision and details of the Council Tax debt.

C Action Plan

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	**Property Plant and Equipment** We recommend that finance management review the accounting entries for the Property, Plant and Equipment balances within the main financial statements and disclosure notes prior to submission for audit in 2012/13.	High	Agreed. This year end has been particularly challenging with both the full implementation of the Tech Forge system (fixed asset database) being finalised together with changes to the Code of Practice relating to Heritage Assets; and the subsequent restatements linked to this. In addition further work has been undertaken in relation to ISA260 recommendations from 2010/11 relating to reconciliation of the Finance Module of Tech Forge and review of Community Assets. Both of these issues have meant corrections to Fixed Asset categorisation. Officers have worked closely with the external auditor to ensure that assurance can be placed on the integrity of the fixed asset database. Officers will be working with the software supplier to improve the robustness and accuracy of the reporting functions within the Tech Forge system, specifically in relation to asset category transfers. This was exceptionally time-consuming to analyse the data manually in the absence of bespoke reports. The latest upgrade of the software deals with some of the issues identified and will be installed shortly. The remaining issues will be progressed over the coming months.	June 2013 (for 2012/13 Draft Statement of Accounts) Group Accountant (Corporate Technical
2	**Council Tax write off** The Council should write out the Council Tax debt in 2012/13 once it has been established how much further funds have been received in relation to the £4.7m	High	Agreed. Officers will continue work required in relation to writing out pre-2000 Council Tax debtors during the current financial year. As this debt is fully provided for there will be no net impact on the either the Collection Fund or the Council's overall financial position. The write off of these debts will be completed and managed within the	31 March 2013 Strategic Finance Manager

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility
			framework of our current financial regulations, and the associated bad debt provision reduced as appropriate	
3	**Payroll Reconciliation to the General Ledger** We recommend that the Council perform formal reconciliations between the payroll system and the general ledger on a monthly basis.	High	Agreed. The current Payroll system does not post 'control' entries into the General Ledger and this has been the case since it was implemented in 2006. Assurance on the integrity of the data is gained via monthly reconciliation of the interface between the Payroll system and the General Ledger but it is acknowledged that this could be further strengthened by direct reconciliation between the two systems. The authority is currently in the process of implementing a new Payroll system and, as part of this Officers, will ensure that mechanisms are in place to enable regular reconciliation of the Payroll system and the General Ledger. Initial discussions on this have already taken place with the Payroll System Implementation Project Team.	Per schedule for Payroll system Implementation, currently November 2012 Strategic Finance Manager
4	**Impairment of Icelandic Banks investments** We recommend that the Council consider compliance with LAAP guidance on the accounting for the impairment of Icelandic Banks investments	Medium	For 2011/12, the Council has used a prudent approach in calculating the impairment adjustment within the accounts due to the continued uncertainty over the level of future recovery. The LAAP guidance assumes collection rates of 86%, 100% and 100% for the recoveries for Heritable, Landsbanki and Glitnir respectively. There continues to be uncertainty, however, over whether these levels of recovery will be achieved and therefore impairments have been made in line with actual receipts rather than those anticipated. Officers will continue to monitor the recovery during 2012/13 and make appropriate judgements in terms of the accounting entries accordingly.	31 March 2013 Director for Corporate Services
5	**Governance Arrangements for the Tamar Bridge and Torpoint Ferry Joint Operation** Following the adoption of the accounts into the single entity statements in 2011/12, we		Agreed. Officers from the Council will progress this with the respective Officers from Cornwall Council. A review of all TBTFJC governance arrangements between the two Councils is already in progress, and these issues will be addressed through this forum.	31 March 2013 Head of Finance

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility
	recommend that both Cornwall County Council and Plymouth City Council draft a memorandum of understanding that formalises the respective roles and responsibilities in relation to assets, liabilities, income and expenditure. This document should be formally adopted by Cabinet members at both Councils.			
6	**East End Office space – revaluation** The Council will need to ensure that the East End office space is revalued in 2012/13.	Medium	Agreed - this has already been included as part of the 2012/13 revaluation programme.	March 2013 Strategic Finance Manager

D Follow-up of prior year issues

2010-11 recommendation	Priority	Management comments	Further audit comments
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.	The asset register has now been fully populated and updated. Data validation has taken place which has highlighted some errors in asset balances from previous years and these have now been amended in the 2011/12 financial statements as detailed above in Section 1.
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.	The Council are currently reviewing the amount of funds received in 2011/12 which will reduce this debt. Once this information has been obtained, the council will write off the debt in 2012/13. We have made recommendations to this effect in the above action plan.

2010-11 recommendation	Priority	Management comments	Further audit comments
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.	Low	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	Bad debt provisions have been reviewed. NNDR debt calculations have been based upon more detailed information.

2010-11 recommendation	Priority	Management comments	Further audit comments
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	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	The Council have performed a detailed review of community assets which has resulted in some assets being reclassified as heritage assets in accordance with IAS30. There have also been a number of amendments made in 2011/12 in relation to 2010/11 balances to take into account reclassifications between community assets and other asset types as a result of this exercise. None of these are material in nature and are not fundamental enough to constitute a prior year adjustment. The Council have disclosed the movements in the 2011/12 financial statements.
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 sin	Medium	Agreed This will be re-assessed with Cornwall Council and the external auditors in 2011-12.	In 2011/12 the Tamar Bridge and Torpoint Ferry balances were integrated into the single entity accounts for Plymouth City Council and Cornwall County Council. A Prior Period Adjustment was made for 2009/10 and 2010/11.

Grant Thornton