

Plymouth City Council

Annual Audit Letter 2011/12

22 October 2012

FINAL

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Introduction

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 2011/12 audit.

The Letter is designed to provide a brief overview of 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 covers our 2011/12 audit, including key messages and conclusions from our work in:

- auditing the 2011/12 year end accounts;
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved; and
- certification of grant claims and returns to various government departments and other agencies.

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 the 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.

Key Messages

Accounts audit

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. The supporting working papers were of a high quality and officers responded promptly and efficiently to issues raised throughout our audit work.

In advance of our year end audit work, we have worked closely with members of the finance team throughout the year to consider and review emerging issues in relation to the financial transactions of the Council and their impact on the financial statements.

This work has informed our audit and included the first time inclusion of the Tamar Bridge and Torpoint Ferry Joint Committee's balances in the Council's financial statements, the detailed review of Community Assets performed by the Council following the implementation of our recommendations made in 2010/11 and the first time adoption of the accounting standards for Heritage Assets.

We issued an unqualified audit opinion on 28 September 2012.

Our audit work identified a number of areas where we recommended adjustments and additions to disclosure notes which accompanied the main financial statements. In particular, a number of adjustments were

made to the disclosures supporting the main financial statements. These included material amendments to the disclosures used to support the figures for Property, Plant and Equipment. Management agreed to make these adjustments and these did not result in any change in the Council's General Fund balance or net worth of assets.

Our main audit conclusions for the year

The 2011/12 accounts give 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.

We identified a number of areas where improvements could be made to the processes in place to prepare the accounts. We made particular recommendations to improve the accompanying working papers for capital transactions at year end and to ensure that management review capital entries prior to submission of the draft accounts for audit. Management also agreed to continue to consider accounting guidance for the treatment of Icelandic Bank investments, which they departed from in 2011-12, to regularly reconcile the payroll system to the general ledger and clarify the governance arrangements between the Council and Cornwall County Council so that the respective roles and responsibilities in relation

to accounting for the Tamar Bridge and Torpoint Ferry Joint Committee's assets, liabilities, income and expenditure are formally agreed.

The actions agreed to all our recommendations were included in our report to 'Those Charged with Governance', which has been designated to be the Council's Audit Committee; on 27 September 2012. We will follow up progress on these matters as part of our 2012/13 audit.

We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Council.

The Council submitted its draft Whole of Government Accounts (WGA) information for audit by the Department for Communities & Local Government (DCLG) deadline of 30 July 2012. We submitted the audited WGA to the DCLG ahead of the deadline of 5 October 2012.

In 2012/13 we will discuss future accounting challenges with the Council, including planning for changes to financial reporting requirements, for example, around accounting treatment of Academy schools and of leased assets.

Value for Money audit

An unqualified Value for Money (VFM) conclusion was also issued on 28 September 2012 confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

As part of this work we performed:

- an update of our assessment of key risk indicators;
- a review of the Council's arrangements for securing financial resilience over the medium term.

- follow up of our prior year work on procure to pay and project management; and
- a review of the achievement of strategic priorities set by the Council for 2011/12.

Securing financial resilience and economy, efficiency and effectiveness

We considered whether the Council has appropriate financial systems and processes in place to manage its financial risks and opportunities. We examined if there were robust medium to long term financial planning arrangements to secure a stable financial position so that the Council could continue to operate for the foreseeable future i.e. 12 months.

We looked at:

- key indicators of financial performance;
- the Council's approach to strategic financial planning;
- the approach to financial governance; and
- the 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 be strengthened further.

We recommended 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 ..

Our analysis indicated that the Council have followed the performance trends for its benchmark group across the majority of areas, with the exception of the working capital ratio and sickness absence rates.

We recommended that the council 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.

At an average of 8.7 sick days per staff member, this is still higher than the target of 6 although this has improved 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.

Strategic Financial Planning

The Council has strong arrangements in place to plan its finances over the next three years. Strategic financial planning incorporates finance and performance management reporting, scenario planning on income and expenditure levels and central government funding. The Medium Term Financial Plan is a comprehensive document modelled on the achievement of corporate priorities and objectives. Consideration has clearly been 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 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 which is an opportune time to evaluate the budget setting process. We also suggested expanding the use of scenario planning to capital and treasury management reviews.

Financial Governance

We concluded that the council has sound governance arrangements for financial planning, monitoring and reporting. In 2011/12 the council enhanced the scrutiny regime to plan and agree the budget for the forthcoming year with officers and members as well as key partners. The arrangements gave all involved an opportunity to challenge draft budgets prior to finalisation. We recommended that the Council now moves towards better integration of performance reporting 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 final audited 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.

Internal audit provide a good service that meets the CIPFA standards. During the course of the year we recommended that Internal audit improve reporting of progress against plan to the Audit Committee.

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

We reviewed the Council's ability to achieve its overall strategic priorities and objectives.

We concluded that the Council has made sound progress over the past year to ensure that corporate priorities and plans are acted upon. The Council has appropriate arrangements in place to identify high cost / low performance areas.

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. The recommendations made in these reports were followed up as part of our VFM work in 2011/12.

Procure to Pay Review

In 2010/ 11 we made fourteen recommendations which management agreed to implement. The Council have yet to implement four of these and are in the process of reviewing these and timetabling revised dates. These recommendations incorporate the following:

- the need for 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 were pleased to note that management implemented seven of these recommendations and have agreed to implement the remaining three by March 2013.

We will continue to review arrangements for securing VFM, focusing on key risk areas, as part of our 2012/13 audit.

Certification of claims and returns

Each year we review and certify grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2010/11 certification work we reported early in 2012 that performance had generally improved against key measures and that the Council continued to work on improving working papers to support the figures within each grant claim submitted for audit.

We are currently in the process of certifying the 2011/12 grant claims and returns. Once this work is complete we will report in full on the findings of our work in a separate report to the Audit Committee.

Outputs and fees

Our audit outputs and fees are shown in Appendices A and B.

Acknowledgements

This Letter has been agreed with Council management and will be presented to Audit Committee on 13 December 2012.

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

Grant Thornton UK LLP
22 October 2012

Appendix A 2011/12 reports issued

Report	Date Issued
Audit Plan	March 2011
Audit Approach Memorandum (Accounts)	June 2012
2010/11 VFM reports follow up: Procure to Pay and Project Management	August 2012
Financial Resilience Report	September 2012
Review of Strategic Priorities for 2011/12	September 2012
Annual Report to Those Charged With Governance (ISA 260)	September 2012

Report	Date Issued
Annual Audit Letter	October 2012
Grants Certification Report 2011/12	December 2012 (planned)

A Fee Analysis

Audit area	Budget 2011/12	Final
Total Code of Practice fee	£302,380	£302,380
Certification of grant claims and returns *	£50,000	To be confirmed on completion of work and reported in Grants Certification Report 2011/12
Questions and objections from the public	£nil	£nil
Non Audit Work :	0	£26,575
Plymouth City Airport review	0	£15,000
Employment status review	0	£3,500
VAT Academy review	0	£8,075

* The quoted fee for grant certification work is an estimate only and is charged at published hourly rates.



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