



# The Audit Findings for Plymouth City Council

## DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

---

**Year ended 31 March 2013**

13 September 2013

**Barrie Morris**

Director

T 0117 30 57708

E [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)

**Geri Daly**

Senior Audit Manager

T 0117 30 57741

E [geri.n.daly@uk.gt.com](mailto:geri.n.daly@uk.gt.com)

**David Bray**

Senior Audit Manager

T 0117 30 57889

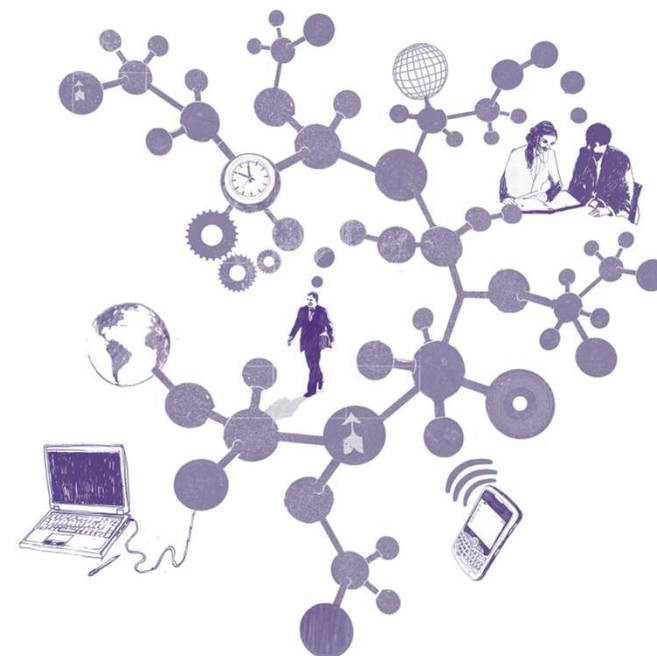
E [david.bray@uk.gt.com](mailto:david.bray@uk.gt.com)

**Emma Dowler**

Executive

T 0117 30 57619

E [emma.dowler@uk.gt.com](mailto:emma.dowler@uk.gt.com)



The contents of this report relate only to those matters which 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. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

## Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	21
4. Fees, non audit services and independence	25
5. Communication of audit matters	27

### Appendices

- A Action plan
- B Audit opinion

## Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Plymouth City Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. 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 (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach that was included in the audit plan we discussed with the Council's Audit Committee on 13 June 2013.

We received draft financial statements and accompanying working papers on 1 July 2013 in accordance with the agreed timetable.

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

- review of Housing Benefits payments made in the year;
- review of the final version of the financial statements;
- obtaining and reviewing the final management letter of representation;
- review of the final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- the completion of the Whole of Government Accounts return work.

We will update the Audit Committee on 19 September when the fieldwork will have been completed.

# Executive summary

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the Council's financial statements for the year ending 31 March 2013.

There were no material errors with the Council's financial statements.

As identified in previous years, the Council has not followed the accounting treatment for its Icelandic Bank investments in accordance with the CIPFA guidance issued through the LAAP Bulletins. Had the Council followed this guidance, it would have reversed the £3.2m loss in investment income recognised in the financial statements. Whilst this treatment is consistent with previous years, we are required to bring this departure from the guidance to your attention. Further information is included within section 2 of this report.

We also identified the need to include three additional disclosures in relation to:

- post balance sheet events and the disposal of the Civic Centre;
- the governance arrangements for the Devon waste partnership agreement; and
- further clarification for the amount expended to date on the waste partnership arrangement and future accounting treatment of the asset.

The financial statements were produced to a high standard and there was evidence of good internal Quality Assurance procedures. There were inevitably a small number of typing and grammatical errors and these have since been corrected.

Further details are set out in section 2 of this report.

## VFM Conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

## Whole of Government Accounts

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

## Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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

We draw your attention in particular to control issues identified in relation to:

- the approval of journal entries; and
- access controls within the Council's financial systems (Civica)

Further details are provided within section 2 of this report.

## The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Section 151 Officer and Head of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the finance team.

## Acknowledgment

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

**Grant Thornton UK LLP**  
**September 2013**

## Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



## Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 13 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to the Audit Plan we discussed with the Audit Committee in June 2013.

### **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<b>Improper revenue recognition</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> <li>Walkthrough testing and documentation of the system.</li> <li>review and testing of revenue recognition policies.</li> <li>testing of material revenue streams.</li> <li>review of unusual significant transactions.</li> </ul>	Our audit work has not identified any issues in respect of revenue recognition.
2.	<b>Management override of controls</b> Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> <li>Review of accounting estimates, judgements and decisions made by management.</li> <li>testing of journal entries made during the year and also after the year end as part of the production of the Council's financial statements.</li> <li>review of accounting estimates, judgements and decisions made by management.</li> <li>review of unusual and significant transactions</li> </ul>	<p>In our audit plan we reported a weakness as there is no authorisation process for journals prior to posting. We have adjusted our testing strategy accordingly. Our detailed audit testing has not identified any evidence of any inappropriate journal entries.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle.</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively.</li> <li>undertaken analytical procedures to identify unrecorded liabilities.</li> <li>tested operating expenses including obtaining supporting documentation for a sample of transactions in year.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle.</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively.</li> <li>undertaken analytical procedures to identify unrecorded liabilities.</li> <li>reviewed a sample of creditors / accruals to confirm they had been appropriately accounted for.</li> <li>reviewed subsequent year payments and sample checked for unrecorded liabilities.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle.</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively.</li> <li>reviewed a sample of employee remuneration expenses to confirm they have been appropriately accounted for.</li> <li>reviewed employee remuneration liabilities to ensure they have been calculated in accordance with the Code (e.g. holiday pay).</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Welfare expenditure</b>	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle.</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively.</li> <li>reconciled the housing benefit and council tax benefit subsidy claim to the ledger and accounts.</li> <li>substantially completed appropriate testing over HB transactions to support our audit opinion</li> <li>tested a sample of benefit claims to ensure they were eligible, accounted for in the correct period and had been calculated correctly</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.




## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle.</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively.</li> <li>reviewed the capitalisation policy and confirmed repairs and maintenance accounts had not been inappropriately capitalised.</li> <li>compared actual capital spend with programmed spend to ensure that expected costs had been capitalised.</li> <li>reviewed a sample of in year additions and disposals to confirm they had been appropriately accounted for.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle.</li> <li>undertaken walkthrough of the key controls to assess whether those controls are designed effectively.</li> <li>evaluated the qualifications and the work completed by the Valuer to ensure that the Code had been complied with.</li> <li>confirmed that the asset values had been appropriately accounted for in the asset register and accounts.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The main sources of revenue for the Council are:-</p> <ul style="list-style-type: none"> <li>– government grants and contributions.</li> <li>– council tax income.</li> <li>– fees and charges.</li> </ul>	<p>We have reviewed the Council's recognition of revenue and found that:</p> <ul style="list-style-type: none"> <li>• appropriate policies had been used .</li> <li>• accounting policies had been adequately disclosed.</li> <li>• revenue had been appropriately recognised.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>– useful life of capital equipment.</li> <li>– pension fund valuations and settlements.</li> <li>– depreciation.</li> <li>– revaluations.</li> <li>– impairments.</li> <li>– provisions.</li> <li>– accruals.</li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates.</p> <p>The Council had not included a provision within its financial statements for the future after-care costs of managing its closed landfill site. Whilst the Comprehensive Income and Expenditure Statement and Balance Sheet had not been amended, an additional disclosure note has been added to the financial statements setting out the estimated future costs of £6.6m</p> <p>Other than that, we found that:-</p> <ul style="list-style-type: none"> <li>• appropriate policies had been used .</li> <li>• accounting policies had been adequately disclosed.</li> <li>• areas where judgement had been used were supported by the work of an expert or a third party.</li> </ul>	 <b>Amber</b>
<b>Other accounting policies</b>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 <b>Green</b>

### Assessment



-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient


-  Accounting policy appropriate but scope for improved disclosure

## Accounting policies, estimates & judgements (continued)

Accounting area	Summary	Comments	Assessment
<b>Joint Waste PFI Scheme</b>	<p>Plymouth City Council has entered into a joint waste PFI scheme with Devon County Council and Torbay Council, with Plymouth being the lead authority.</p> <p>The scheme will become operational in the next financial year (i.e. 2014/15) and the Council and its partners needs to establish:</p> <ul style="list-style-type: none"> <li>the formal status of the entity (i.e. whether it is a Joint Committee or other arrangement);</li> <li>the governance arrangements for the entity; and</li> <li>the accounting treatment of the asset that is currently being constructed.</li> </ul>	<p>The Council's initial view was that a Joint Committee was formed to oversee the waste PFI scheme, although it has yet to reach an agreement on this with its partners. This issue needs to be resolved promptly.</p> <p>The Council has also agreed to work with Torbay Council and Devon County Council to clarify the governance arrangements and the accounting treatment of the asset being constructed. The Councils anticipate the need to engage external independent financial advisors to support them in resolving the accounting treatment and this needs to be agreed between the partners at the earliest opportunity.</p>	 <b>Amber</b>
<b>Governance Arrangements for the Tamar Bridge and Torpoint Ferry Joint Operation</b>	<p>The financial statements for the Tamar Bridge and Torpoint Ferry Joint Committee provide material figures for inclusion within the City Council's own financial statements.</p>	<p>In 2011/12, we recommend that both Cornwall 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 memorandum of understanding has yet to be finalised.</p>	 <b>Amber</b>

### Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

A small number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustment arising from the audit which has been processed by management.

### Impact of adjusted misstatement

The one adjusted misstatement is set out below. There was no impact on the key statements or the reported financial position.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1	An error within the Council's asset register meant that the depreciation on the assets of schools transferring to Trust status were incorrectly shown in note 10.1. It was included as 'derecognition - disposals' rather than 'derecognition - other '. There was no overall effect on the total depreciation or the total values of the Council's assets.		£1,153	
<b>Overall impact</b>		<b>None</b>	<b>No net effect</b>	<b>None</b>



## Misclassifications & disclosure changes

The table below provides details of the disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	£6,600	Provisions	The Council has included a note setting out the estimated future after-care costs of managing its closed landfill site
2 Disclosure	N/A	Post Balance Sheet Events	The Council has included a note outlining the proposed disposal of the Civic Centre. This information was not available when the draft financial statements were produced.
3 Disclosure	£3,300 (a) £264 (b)	Joint Waste PFI Scheme	The Council has, in conjunction with its partners, included a disclosure note setting out (a) the costs incurred to date, (b) the costs incurred in 2012/13 and (c) the issues that still need to be resolved regarding the governance arrangements and the accounting treatment.
4 Disclosure	£9 and -£10	Audit Fees Disclosure (Note 26)	The External Audit Fees note was updated to reflect the additional work undertaken in respect of the Plymouth City Airport transactions (disclosure increased from £8,000 to £17,000) and a reduction of £10,000 in the anticipated certification fees for the year.
5 Disclosure	N/A	Remuneration Report (Note 25)	Although the figures were originally correct, we asked for the layout of the note to be changed in order to make the note more understandable.

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 The Council has not included a provision within its financial statements for the future after-care costs of managing its closed landfill site. However, a disclosure note has been added to the financial statements setting out the estimated future costs.	None	£6,600	The final guidance in relation to the requirement for this provision and associated accounting treatment / entries was not available at the time the draft accounts were published in June, and so no provision was made at this time. However, Officers had been aware for some time that the publication of the guidance was imminent and had therefore anticipated that this would be an issue for consideration for the 2013/14 accounts. Since the guidance was received in mid-July, work has progressed with regards to identifying a reasonable estimate of the provision required. At this stage, after considering the likely value and nature of the provision in terms of its impact on the financial statements, it is proposed that the necessary accounting adjustments be implemented during 2013/14, rather than within the 2012/13 accounts. It is Officer's opinion that the omission of this provision for the 2012/13 accounts will not have a detrimental impact on the reader's understanding or interpretation of the Council's financial position.

## Unadjusted misstatements continued



Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>2 As in previous years, the Council has deviated from the guidance provided by CIPFA in a LAAP bulletin regarding the accounting treatment for investments held with Icelandic banks. The Council has made a full disclosure of its approach and the amounts received in the year.</p> <p>If the Council were to follow CIPFA's guidance there would be a reversal of the loss of £3.242m 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 misstatement for those charged with governance to consider.</p>	£3,242	£3,242	<p>The Council has been consistent and used a prudent approach in calculating the impairment adjustment within the accounts due to the continued uncertainty over the level of future recovery. Impairments have been made in line with actual receipts rather than those anticipated. Officers will continue to monitor the recovery during 2013/14 and make appropriate judgements in terms of the accounting entries accordingly.</p>
<b>Overall impact</b>	<b>£3,242</b>	<b>-£3,358</b>	

## Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	 <b>Amber</b>	In our audit plan we reported that journals were not authorised prior to being posted on the Council's main accounting system.	<p>We recommended that appropriate arrangements to review and authorise journals within set parameters were introduced. This recommendation was agreed by the Council.</p> <p>The Council is looking to update its main accounting system (Civica) which should improve the internal controls in place over journal transactions. We will follow up this recommendation as part of our 2013/14 interim audit.</p>
2.	 <b>Amber</b>	<p>Our review of IT processes identified that:</p> <ul style="list-style-type: none"> <li>there were a large number of staff with 'administrator access' (i.e. full access) to the Council's financial systems. There is a risk that inappropriate transactions are processed.</li> <li>improvements could also be made to the way in which users are added to and removed from the system. There is a risk that staff are given inappropriate access or retain the ability to process transactions.</li> <li>reviews of user accounts are not undertaken and audit logs are not populated. Review processes are weakened by the absence of an effective audit trail.</li> </ul>	<ul style="list-style-type: none"> <li>The Council should review which staff have administrator access to its financial systems.</li> <li>Improvements should be made to the way in which users are added to the financial systems to ensure that their access levels are appropriate;</li> <li>Improvements should be made to the way users are removed from the system to ensure that access is stopped at an appropriate time.</li> <li>Reviews of user accounts should be undertaken and audit logs should be populated.</li> </ul>

### Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures, including through discussions with Senior Officers and your Internal Auditors. The Council has provided us with written responses on its arrangements in accordance with the requirements of the auditing standards (ISA240) .</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of not amending the financial statements for the two items identified earlier in this report.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed. in Note 28 of the Council's financial statements.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

## Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for Money conclusion

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 are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall, our work highlighted that the Council has adequate arrangements in place to secure financial resilience. The Council is in the progress of updating its medium term financial strategy and, once complete, will mean that it is planning over a five year horizon.

The Council reported a deficit of approximately £500k in 2012/13, although this masks significant overspends in some areas, particularly within Adult Social Care. There is a need to challenge future savings plans and to ensure that progress against these is closely monitored.

We have produced a separate financial resilience report which sets out our findings and recommendations in more detail. This will be presented to the Council's Audit Committee in September 2013.

### Challenging economy, efficiency and effectiveness

We have concluded that the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. In reaching this conclusion, we reviewed the Council's corporate plan and its proposals for accommodation, ICT and business rates.

## Overall VFM conclusion

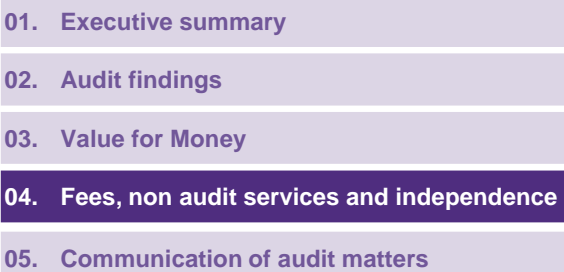
On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VFM conclusion against the specified criteria we performed a risk assessment against VFM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VFM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Financial resilience, including budgetary control within Adult Social Care	<p>We reviewed the Council's arrangements for</p> <ul style="list-style-type: none"> <li>financial planning over the medium term .</li> <li>budget setting and day-to-day budgetary control .</li> </ul>	<p>We have issued a separate financial resilience report setting out our detailed findings.</p> <p>We have made a number of recommendations to help enhance the arrangements in place.</p> <p>No significant weaknesses were identified and we plan to issue an unqualified VFM Conclusion for 2012/13.</p>
Proposed new ICT arrangements	<p>We have spoken to Officers and obtained an overview of the proposals from the business case.</p>	<p>The proposed partnership is not planned to go live until 2014/15 at the earliest.</p> <p>Discussions are on-going about the proposals and which partners will be involved in the project. No decision as been made regarding Plymouth City Council's participation.</p> <p>Consequently, there are no implications for our 2012-13 VFM Conclusion.</p>



## Section 4: Fees, non audit services and independence

- 
- 01. Executive summary
  - 02. Audit findings
  - 03. Value for Money
  - 04. Fees, non audit services and independence**
  - 05. Communication of audit matters

## Fees, non audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services.

### Fees

	Per Audit plan £	Actual fees £
Council audit	181,428	181,428
Grant certification	23,900	TBC
<b>Total audit fees</b>	<b>205,328</b>	<b>TBC</b>

Our grant certification work will be completed by 30 November 2013. We will share any significant findings with the Audit Committee and will confirm our final fee for the year once this work has been completed.

### Fees for other services

Service	Fees £
Plymouth City Airport Due Diligence Review	£16,900

### Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report 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](http://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.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
<b>1 (page 15)</b>	<p>The Council and its partners need to establish:</p> <ul style="list-style-type: none"> <li>the legal status of the waste partnership arrangements (i.e. whether it is a Joint Committee or other arrangement);</li> <li>the governance arrangements for the entity; and</li> <li>the accounting treatment of the asset that is currently being constructed.</li> </ul>	High	<p>The Governance of the Partnership is through the South West Devon Waste Partnership Committee and Plymouth's Finance staff are currently assessing the appropriate financial reporting arrangements of the partnership contract costs within each authority and the committee. This assessment will be completed by April 2014.</p>	<p>April 2014 Strategic Finance Manager</p>
<b>2 (page 19)</b>	<ul style="list-style-type: none"> <li>The Council should review which staff have administrator access to its financial systems.</li> <li>Improvements should be made to the way in which users are added to and removed from the Council's financial systems</li> <li>Reviews of user accounts should be undertaken</li> <li>Audit logs should be populated.</li> </ul>	High	<p>The new IT support team are undertaking a review as part of their new remit of all systems.</p> <p>Finance are also in discussions with the financial systems provider regarding enhancements that may be available to the management of system user access and audit logs.</p>	<p>December 2013 Strategic Finance Manager/IT System Support Team Manager</p>

## Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PLYMOUTH CITY COUNCIL

#### Opinion on the financial statements

We have audited the financial statements of Plymouth City Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Plymouth City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Plymouth City Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

#### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources****Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Plymouth City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.



**Certificate**

We certify that we have completed the audit of the financial statements of Plymouth City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Barrie Morris  
Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street,  
Bristol  
BS1 6FT

24 September 2013

## Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you in June 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income <sup>9</sup>	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	LAAP guidance not followed re Icelandic Banks
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash and cash Equivalents	Bank & Cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	Landfill provision not included
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

# DRAFT



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**