



# Audit Committee Update for Plymouth City Council

**Year ended 31 March 2014**

Committee Date: 26 June 2014

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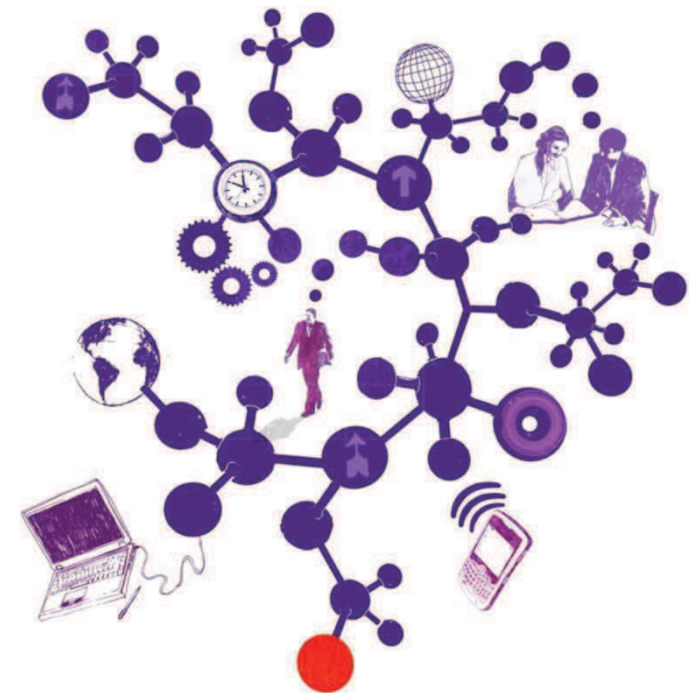
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Unitary Council
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

## Progress at 12 June 2014

Work	Due By	Complete	Comments
<p><b>Interim accounts audit</b>            Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• initial risk assessment to support the Value for Money conclusion.</li> </ul>	April 2014	Yes	Our interim audit work was completed in April 2014. We have reported our findings in our 2013/14 Accounts Audit Plan, which is a separate agenda item for the Audit Committee meeting on 26 June 2014.
<p><b>2013-14 Accounts Audit Plan</b>            We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	June 2014	Yes	We will present our 2013/14 Accounts Audit Plan to the Audit Committee on 26 June 2014. We have agreed this plan with the Council's Head of Finance.

## Progress at 12 June 2014

Work	Due By	Complete	Comments
<p><b>2013-14 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• detailed work to support the VFM conclusion</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	September 2014	Not yet due	<p>We have been working with your finance team regarding the audit of your financial statements for the year ended 31 March 2014 and have met with them on a monthly basis to discuss the major issues in 2013/14.</p> <p>Our audit will commence on 16 June 2014, two weeks ahead of the deadline for councils to complete the production of their financial statements.</p>
<p><b>2013-14 VFM Conclusion</b> We are required to assess whether Exeter City Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience</li> <li>• challenging how it secures economy, efficiency and effectiveness</li> </ul>	September 2014	Not yet due	<p>We have completed an initial risk assessment and have included the results of this in our audit plan for discussion with the Audit Committee on 26 June 2014.</p>
<p><b>2013-14 certification work</b> This work is expected to cover:</p> <ul style="list-style-type: none"> <li>• Housing benefits</li> </ul>	November 2014	Not yet due	<p>We do not expect to be required to certify the Council's non domestic rates return for 2013/14.</p> <p>We will produce a certification plan for discussion at the September 2014 Audit Committee.</p>

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# Audit fees remain unchanged

## 2014/15 Audit fees

The Audit Commission has recently set its proposed work programme and scales of fees for 2014/15.

We wrote to the Council on 2 April setting out the audit fee for 2014/15 and this letter is attached to this update.

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2014/15 has been set by the Audit Commission at £181,428, which is identical to the audit fee for 2013/14.

The audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses. We will communicate the outcome of our planning work to the Audit and Governance Committee.

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

The Council's composite indicative grant certification fee has been set by the Audit Commission at £23,302.

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# Understanding your accounts – member guidance

## Accounting and audit issues

### Guide to local authority accounts

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand. We have prepared a guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at 31st March; and
- other statements and additional disclosures

We have provided copies of the guide to Local Authority accounts to the Council for distribution to the Audit Committee.

### Issue for consideration

Have members referred to this guidance?



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# Accounts – our top issues

## Accounting and audit issues

### Key issues for the 2013/14 closedown

Based on the queries we have received from clients and audit teams, here is a list of the key issues to consider for the 2013/14 closedown at Plymouth City Council.

1. Do your accounts tell the overall story of your authority's financial performance and financial position? Are they clear, concise and easy to follow? Is detailed information on the most important information easy to find? Have duplicated text, non-material notes and zero entries been removed?
2. Are your accounts internally consistent? In particular, does the movement in reserves statement agree to the detailed notes?
3. Is your programme of revaluations is sufficiently up to date to ensure that the carrying value of property, plant and equipment does not differ materially from the fair value at 31 March 2014?
4. Have you accounted for provisions in accordance with IAS 37?
  - Have you considered provisions for business rates, equal pay and restoration and aftercare of landfill sites?
  - Are your provisions the best estimate of the liability (rather than a prudent estimate or an amount that is convenient for budget purposes)?
  - Is there a robust evidence based methodology to support the estimate?
  - Are there any instances in which a provision has not been made because a reliable estimate cannot be made? If so, Is their robust evidence to support the judgement that a reliable estimate is not possible? Has a contingent liability been disclosed?
5. Have you addressed the new accounting requirements in 2013/14 for the presentation of IAS 19 pension costs and a new service line for Public Health been addressed? Have comparatives been restated?
6. Have you disclosed the accounting policy for schools? For those schools that are not recognised on the balance sheet, has information about school assets, income and expenditure been disclosed?

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# Accounts – our top issues

## Accounting and audit issues

7. In the pension accounts, have the following disclosures required by the Code been included that are in addition to those set out in the CIPFA example pension fund accounts:
- the relationship between net assets available for benefits and the present value of promised retirement benefits
  - an accounting policy for measurement of assets held at amortised cost.

### Issue for consideration

Has the Council addressed the closedown issues and assessed the potential impact for your financial statements?

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# Accounts – CIPFA bulletin

## Accounting and audit issues

### LAAP Bulletin 98: Closure of the 2013/14 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued [LAAP Bulletin 98](#). The bulletin provides further guidance and clarification to complement CIPFA's 2013/14 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- public health reform
- non-domestic rates – provision for appeals against the rateable value of business properties
- component accounting
- accounting for pension interest costs in relation to current service cost and pension administration costs
- disclosure requirements for dedicated schools grant.

With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15 and on the measurement of transport infrastructure assets in 2016/17.

### Issue for consideration

Has the Council reviewed the guidance and assessed the potential impact for your financial statements?

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# Blue Badge fraud prosecutions double in three years

## Local government guidance

### Fraud prevention

The Local Government Association has reported that Blue Badge fraud prosecutions have doubled in three years as councils crackdown on dishonest motorists robbing disabled people of their independence and their right to easier parking. - See more at: [http://www.local.gov.uk/web/guest/media-releases/-/journal\\_content/56/10180/6186329/NEWS#sthash.Pllm4374.dpuf](http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10180/6186329/NEWS#sthash.Pllm4374.dpuf)

Stoke-on-Trent City Council, Plymouth Council and Hull City Council recently secured their first prosecutions against fraudsters while Manchester City Council has a 100 per cent conviction rate with more than 500 prosecutions in the past five years. Councils are also using new powers to seize and confiscate badges suspected of being used illegally and some have set up specific enforcement teams to tackle Blue Badge fraud.

Cllr Peter Box, Chair of the LGA's Economy and Transport Board, said:

"Councils are determined to do everything in their power to protect the quality of life for our disabled and vulnerable residents and will not hesitate to take legal action against anyone caught abusing the scheme. With more of these fraudsters being brought to justice than ever before by councils, this is sending a strong message that we will come down hard on drivers illegally using Blue Badges."

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# Priority School Building Programme

## Local government guidance

The Schools minister David Laws announced (2 May 2014) that the government will spend £2bn on a second phase of its Priority School Building Programme in the six years from 2015.

Under the Priority School Building Programme, which replaced the last government's Building Schools for the Future scheme, the government has announced its commitment to spending £18bn on school buildings over the course of this parliament, including £2.4bn targeted at the schools in worst condition. Overall, this funding is set to build around 300 new schools and provide improvements to nearly 600 others.

In announcing this targeted initiative was on course to improve 261 schools with buildings in the worst condition in England by the end of 2017 and that it would now be extended into a second phase, with a further £2bn allocation over the next spending review period to 2021 the minister stated:

"the original Priority School Building Programme worked on the basis of the condition of the whole school site. We will now refine this to look at targeting individual school buildings, as well as whole school rebuilds where this is appropriate, so that the department can focus much more tightly on addressing specific issues in the estate."

## Issue for consideration

Has the Council considered the implications of the Priority School Building Programme for its schools building and refurbishment programme?

# Not to be rubbished, £464 million potential savings

## Local government guidance

### Audit Commission VFM Profiles

Using data from the VFM Profile, <http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/> the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

### Issues for consideration

Has the Council used the Audit Commission briefing paper to consider how their:

- overall spending on household waste management has changed over time?
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time?
- spending on different components of waste management compares with authorities that have similar or better performance?

# Assessing the costs and benefits of local partnerships

## Local government guidance

The government published its cost benefit analysis guidance for local partnerships on 2 April 2014.

Developed as part of the Greater Manchester 'whole place' Community Budget pilot, it was the first Treasury-approved assessment of the costs and benefits of joining-up and reforming public services in local areas.

The framework was developed by New Economy, the economic strategy unit of the Greater Manchester Combined Authority. John Holden, acting director of economic strategy at the agency, led the team that devised the methodology. He said

"this model provides a framework to start thinking about more holistic projects that deliver long-term outcomes but also produce short-term cashability [savings]"

The guidance sets out a standard process to determine the benefit of reforms, based on the unit cost of services, their impact and the savings that result. In providing Treasury backing for the cost benefit analysis framework – it has been included in Whitehall's Green Book for policy appraisal and evaluation – it has been added to the government's assessment process for the latest £320m round of the Transformation Challenge Award, which provides funding to councils to implement reforms.

### Issue for consideration

Has the Council considered the applicability of the government's cost benefit analysis guidance in considering the cost-benefits of local service delivery options?

# Working in tandem – Local Government Governance Review 2014

## Grant Thornton

### Local Government Governance Review

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/> is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

### Issues for consideration

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Has the Council reviewed these case studies and assessed whether it is meeting good practice in these areas?
- Our report includes key questions for members to ask officers on risk management and alternative delivery models. Are these issues being considered and responded to by officers?



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# Getting to grips with Local Government Accounts

## Grant Thornton

### Local Government Audit Committee Summer Workshops

Local Government accounts have become increasingly complex and hard for even finance professionals to understand.

There are also increasing expectations about openness, accountability and transparency in reporting.

The role of an audit committee member to provide assurance to the Council that the accounts are properly put together and audited is not an easy one.

Drawing on Grant Thornton's 2014 publication 'a guide to local authority accounts' referred to on page 8 of this update, we are hosting a series of free workshops across the South West which aim to:

- Unlock the mystique of the accounts by explaining the purpose and main features of all the main statements and notes;
- Assist Audit Committee members to understand and challenge the key issues of importance;
- Explain how auditors engage with Audit Committees throughout the entire audit process;
- Help Audit Committees better understand the structure and principles of an external audit; and
- Enable members to network with members from other councils and share good practice.

There will also be time for discussion and networking.

Invitations have recently been sent out, but please speak to your Engagement Lead or Audit Manager if you have not received an invitation or if you would like any further information on these workshops.



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Dear Malcolm

## **Planned audit fee for 2014/15**

The Audit Commission has set its proposed work programme and scales of fees for 2014/15. In this letter we set out details of the audit fee for the Council's along with the scope and timing of our work and details of our team.

## **Scale fee**

The Audit Commission defines the scale audit fee as "the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

The Council's scale fee for 2014/15 has been set by the Audit Commission at £181,428, which is identical to the audit fee for 2013/14.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: [www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415](http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415)

The audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

## **Scope of the audit fee**

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.



### Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

### Certification of grant claims and returns

The Council's composite indicative grant certification fee has been set by the Audit Commission at £26,500.

### Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2014	45,357
December 2014	45,357
March 2015	45,357
June 2015	45,357
<b>Grant Certification</b>	
December 2015	26,500
<b>Total</b>	<b>£207,928</b>

### Outline audit timetable

We will undertake our audit planning and interim audit procedures early 2015. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in August 2015 and work on the whole of government accounts return in September 2015

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January and February 2015	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to September 2015	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
VfM conclusion	January to September 2015	Audit Findings (Report to those charged with governance)	As above
Financial resilience	January to September 2015	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2015	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2015	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2015	Grant certification report	A report summarising the findings of our grant certification work

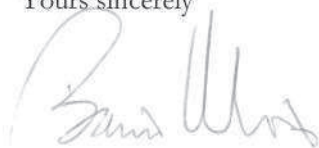
#### **Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed with a detailed project specification and fee being agreed with the Council.

#### **Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact John Golding our Public Sector Assurance regional lead partner ([john.golding@uk.gt.com](mailto:john.golding@uk.gt.com)).

Yours sincerely



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