



The Audit Findings for Plymouth City Council

Year ended 31 March 2014

12 September 2014

John Golding

Partner

T 0117 305 7802

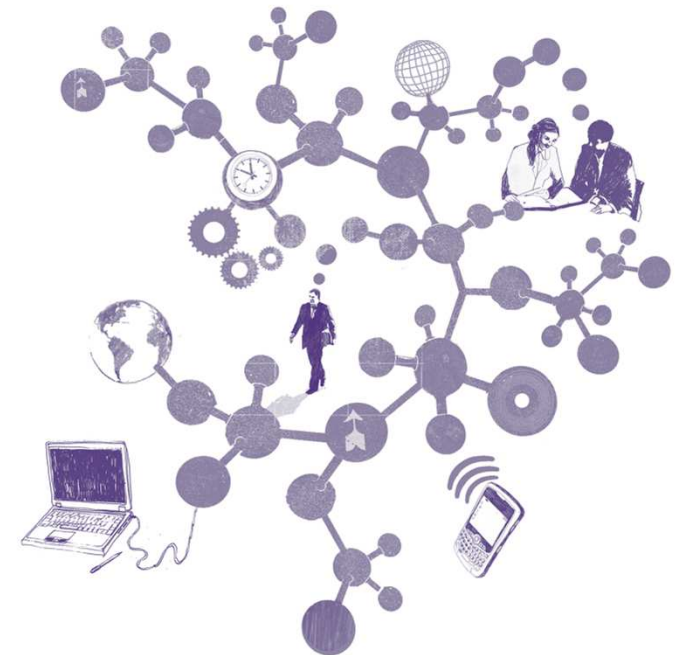
E john.golding@uk.gt.com

David Bray

Senior Audit Manager

T 0117 305 7889

E david.bray@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.

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Section 1: Executive summary

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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 2014. 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, which we communicated to you in our Audit Plan dated 5 June 2014.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

At the time of writing, 12 September 2014, our audit was substantially complete.

We are finalising our work in the following areas:

- Property Plant and Equipment, and
- Welfare Benefits (i.e. Housing Benefits and Council Tax Support).

In addition to the completion of the remaining fieldwork outlined above, we need to undertake the following audit completion tasks:

- review of the final version of the financial statements and the completion of the disclosure checklist;
- obtaining and reviewing the final management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts.

We are awaiting assurances from the External Auditors of the Devon Pension Fund to enable us to complete our audit.

We will update the Audit Committee regarding the completion of our work on 25th September 2014.

Executive summary

Key issues arising from our audit

Financial statements opinion

The Council prepared its financial statements ahead of the National timetable (30 June 2014) and made a full set of working papers available to us at the start of the audit, in the week commencing 16th June 2014, which was two weeks earlier than the previous year.

Only a small number of adjustments to the Council's draft financial statements have been as a result of our audit and we did not identify any material errors. Overall, the standard of the Council's financial statements are consistent with the previous year and their content and layout has been significantly improved.

However, the Council did make a large number of trivial amendments to its draft financial statements after they were provided to us. Although they did not have a noticeable effect on the presentation of the financial statements, they did hinder our audit, particularly with the Whole of Governments Account (WGA) work which requires us to reconcile the Council's WGA return to its financial statements.

We identified a number of further presentational and disclosure changes which are required by the Code of Practice 2013-14. Further details are set out in section 2 of this report.

Value for Money conclusion

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 (WGA)

Our work is in progress and we will complete our work in respect of the WGA in accordance with the national timetable. We will share our findings with you once this work has been finalised.

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.

In our audit plan we reported to you a weakness we identified regarding journal entries as there is no authorisation process for journals prior to posting. Our IT auditors identified scope to improve the controls in place in a number of areas, although none of these are considered to be a significant weakness.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Council's Assistant Director for 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 Assistant Director for Finance,

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 2014

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

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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 26 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion on its financial statements. 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.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>Although we identified a weakness regarding the lack of journal authorisation, our testing of journal entries has not found any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</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	Creditors understated or not recorded in the correct period	We have: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls • Undertaken cut off testing and searched for unrecorded liabilities • Substantively tested operating expenses incurred by the Council 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	We have: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls • substantively tested payroll transactions undertaken by the Council • performed analytical procedures, including a trend analysis. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	We have: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls 	At the time of writing, our audit work in this area has not been completed. We will provide an update to the Audit Committee on 25 September 2014.
Property, plant & equipment	PPE activity not valid	We have: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls • substantively tested a number of additions and made comparisons to the Council's Capital Programme. • physically verified the existence of a number of the assets and confirmed the ownership. 	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
<p>Property, plant & equipment</p>	<p>Revaluation measurement not correct</p>	<p>We have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested key controls • reviewed the revaluations in the year, including the qualifications of the valuer and the methodology applied • assessed how the Council has ensured that assets not formally revalued are fairly stated. 	<p>At the time of writing, our audit work in this area has not been completed.</p> <p>We refer to the accounting estimates and judgements relating to PPE valuations on pages 14 and 15 of this report.</p> <p>We will provide an update to the Audit Committee on 25 September 2014.</p>

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
Revenue recognition	The Council's accounting policy is that income is accounted for in the year that it takes place, not simply when cash payments are made or received.	<p>The Council's revenue recognition policy is clearly set out and is consistent with that of the previous year.</p> <p>The policy has been reviewed and assessed as being in accordance with CIPFA's requirements and in line with that adopted by other Local Authorities.</p>	 Green
Judgements and estimates	<p>In the financial statements, the Council has disclosed that the key judgements and estimates are in relation to :</p> <ul style="list-style-type: none"> • Pensions liabilities • Arrears • Landfill Provision • Valuation of property, plant and equipment • Depreciation 	<p>Our work is continuing on PPE valuations. We will provide an update to the Audit Committee on 25 September 2014.</p> <p>Our work on other key judgements and estimates has not identified any issues we wish to bring to your attention.</p>	


Assessment

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



-  Accounting policy appropriate but scope for improved disclosure (amber)

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
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators (red)
-  Accounting policy appropriate but scope for improved disclosure (amber)
-  Accounting policy appropriate and disclosures sufficient (green)

Adjusted misstatements

There were no misstatements identified during the audit of the draft financial statements. However there were a number of disclosure changes required which are shown on page 17.

Misclassifications & disclosure changes

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

Area	Adjustment Made
1 Note 8 – PFI	The draft financial statements did not reflect the correct additions in this disclosure note and they were overstated by £2.3m. This did not affect the property, plant and equipment values on the balance sheet as this is an addendum to the main note.
2 Note 8.5 – Revaluations/Impairments	The draft financial statements did not reflect the full disclosure requirements relating to the Valuer, method of valuation, assumptions the made or date of valuation.
3 Note 9 – Heritage Assets	The draft financial statements did not reflect the full disclosure requirements relating to the Heritage Assets movement in the year.
4 Note 17.4 – Cash and Cash Equivalents	The draft financial statements did not reflect the full disclosure requirements relating to the Cash and Cash Equivalents of the Council.
5 Note 12.4 Nature and Extent of Risks Arising from Financial Instruments.	The draft financial statements did not reflect the full disclosure requirements relating to the credit risk quantification.
6 Note 27 – Defined Benefits Pensions Scheme	The draft financial statements did not reflect the full disclosure requirements relating to the Local Government Pension Scheme.

Misclassifications & disclosure changes (continued)

Area	Adjustment Made
7 Movement In Reserves Statement (MIRS)	Differences were identified between the MIRS working papers and the draft financial statements, due to the late changes made after the publication of the draft accounts referred to earlier in this report.
8 Non Compliance with Code of Practice 2013-14	The Council has departed from the Code of Practice in respect of the depreciation method for the Tamar Bridge. This approach has also been followed by Cornwall Council. However, the draft financial statements did not include the required disclosure relating to this departure.

Unadjusted misstatements

The table below provides details of the one adjustment identified which we requested be processed 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
<p>1 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.</p> <p>If the Council were to follow CIPFA's guidance there would be a reversal of the loss of £1.5m 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 again raised this as an unadjusted misstatement for those charged with governance to consider.</p>	£1,517	£1,517	<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 2014/15 and make appropriate judgements in terms of the accounting entries accordingly.</p>
Overall impact	£1,517	£1,517	

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.	 Red	As reported in our audit plan, a material weakness has again been noted as there is no authorisation process for journals prior to their posting. This was previously reported to the Council in 2012/13.	The Council should introduce a sample-based approach to journal review and authorisation, covering all journals.
2.	 Amber	<p>As reported in our audit plan, our information system specialist preformed a high level review of the General IT control environment and followed up issues raised in the previous year. The findings were:</p> <ul style="list-style-type: none"> • There was a lack of formal reviews of Information Security Policies and Procedures; • Reviews of information security logs were not being formally, proactively and routinely reviewed; • Intruder lockout settings were weak 	<p>Information Security Policies should be reviewed at planned intervals or when significant changes occur to ensure their continued suitability, adequacy and effectiveness;</p> <p>The logs relating to information security events on each system and the network should be formally reviewed for the purpose of detecting inappropriate or anomalous activity.</p> <p>The policy regarding intruder lockout should be reviewed to ensure that controls are in place to detect repeated attempts at gaining access to the Network Accounts. This should include the requirement for regular reporting and review of failed attempts to log into the Network.</p>

Assessment

- Significant deficiency – risk of significant misstatement (red)
- Deficiency – risk of inconsequential misstatement (Amber)

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.	Matters in relation to fraud	<p>We have previously discussed the risk of fraud with the Audit Committee and the Assistant Director for Finance and have received written representations from them in accordance with ISA240.</p> <p>We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit.</p>
2.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<p>A letter of representation has been requested from the Council.</p> <p>In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for PPE Valuations.</p>
4.	Disclosures	Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

All councils face significant financial challenges over the next few years and will have to take some very difficult decisions.

Plymouth City Council has produced a three year budget covering 2014/15 to 2016/17. Whilst there are inevitably some uncertainties regarding the levels of future financing, this three year budget shows that there is a shortfall - or savings target - of £45m over those three years.

This shortfall is planned to be bridged in a number of ways, but the largest single area is the Council's Transformation Programme which aims to deliver savings of £24m over that period.

Having already reduced the Council's net revenue spend by £30m over the last 3 years, this represents a significant challenge and will need to be carefully managed.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

The Council has set out its future direction in its 'Brilliant Co-operative Council Corporate Plan' and in May 2014 it made a further 50 'pledges'.

The Council is working with other organisations on service delivery and its Transformation Programme will have a major impact on both what services are delivered and how they are delivered.

Councils are experiencing falling resources and increasing demands for some of their services and will need to prioritise effectively if they are to remain financially sound.

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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2013-14
Key indicators of performance	Overall, the Council's outturn for 2013/14 was in line with its budget. The budget was challenging and reflects well on the Council. There were, however, some areas where the budget was exceeded (e.g. Adult Social Care) but at the year end the Council's General Fund was virtually unchanged from the previous year and its earmarked reserves had increased by approximately £3m.	Green
Strategic financial planning	<p>The Council has developed a three year budget covering 2014/15 to 2016/17. This shows that, having already reduced the net revenue spend by £30m (in total) over the last 3 years, there is a shortfall of £45.2m over that period.</p> <p>This shortfall is planned to be bridged in a number of ways, including income generation (£3.7m over the three years) and partnership working (£4.1m over the three years), but the largest area of savings is the Council's Transformation Programme which aims to deliver savings of £24.2m of savings over the period 2014/15 to 2016/17.</p> <p>Net financial savings from the Transformation Programme are, predominantly, forecast to be achieved in 2015/16 beyond, with savings over the period 2014/15 to 2016/17 being £1.2m, £7.3m and £15.7m respectively.</p> <p>The Council's own three year budget assessed the delivery of these savings as 'red' (high risk) which recognises the challenges that lie ahead. Internal Audit's review of contract management found the arrangements, at the time of their review, to be unstructured and variable which exposed the Council to potential risk.</p> <p>The Council needs to ensure that the completion of the Transformation Programme work streams, their subsequent implementation and the financial impacts are closely monitored. The Council also needs to be alert to the fact that savings in one service area could lead to cost pressures in another.</p>	Amber

Theme	Summary findings	RAG rating 2013-14
Financial governance	<p>The Council is aware of its financial environment at both Officer and Member level. The Council has developed a three year plan although, as noted earlier, the delivery of this will be challenging.</p> <p>There is a good system of budgetary control in place and Plymouth City Council has not reported any significant variances from its overall budget in recent years.</p> <p>Risk management arrangements are unchanged and are considered to be effective.</p>	Green
Financial control	<p>Although we have not identified any concerns regarding the Council's budgetary control arrangements, the challenging financial environment means that there needs to be close scrutiny of the Council's financial performance, covering the delivering of the Transformation Programme as well as the other planned measures such as income generation.</p> <p>Internal Audit have not identified any weaknesses within your key financial systems that could impact on our VFM Conclusion and this accords with our own work on your financial statements.</p>	Green
Prioritising resources	<p>The Council has set out its future direction in its 'Brilliant Co-operative Council Corporate Plan' and in May 2014 it made a further 50 'pledges'.</p> <p>As noted earlier, the Council's Transformation Programme will have a major impact on both what services are delivered and how they are delivered and the Council needs to ensure that this programme remains on track and that savings in one service area do not lead to cost pressures in another.</p>	Amber
Improving efficiency & productivity	<p>Plymouth City Council has the lowest Council Tax in Devon and Cornwall and the Audit Commission's national data shows that the Council has a low average spend per head.</p> <p>The Council is open to new ways of working (e.g. the shared IT service with NEW Devon CCG) where it considers cost reductions and service improvements can be achieved.</p>	Green

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	181,428	181,428
Grant certification	23,302	TBC
Total audit fees	204,730	TBC

Our certification work will not be completed until November 2014. We will advise the Council's Audit Committee of the final fee for this work at that time.

There is an additional fee of £1,080 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for Unitary Authorities and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

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

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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).

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.

	Audit Plan	Audit Findings Report
Our communication plan		
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 – financial statements

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Once the draft financial statements have been prepared, no amendments should be made until the audit has been completed.	Deficiency	Agreed	April 2015 Lead Accountant – Technical Finance
2	The Council should introduce a sample-based approach to journal review and authorisation, covering all journals.	Deficiency	Internal Audit carry out an annual testing of a sample of journals as part of their internal audit. Finance will introduce its own random sample of journals to test accuracy, plus any individual journal entry >£500k will be authorised by Head of Corporate Strategy or Head of Finance Operations The Council are upgrading Civica Financials programme which should incorporate an alert system that automatically identifies unusual journals that fall outside prescribed parameters. These alerts will then be reviewed by finance management.	On-going October 2014 Head of Corporate Strategy April 2015 Lead Accountant – Technical Finance
3	Information Security Policies should be reviewed at planned intervals or when significant changes occur to ensure their continued suitability, adequacy and effectiveness;	Deficiency	The new IT support team are undertaking a review as part of their new remit of all systems. There is planned to be an annual review of these policies.	January 2015 Head of Corporate Strategy / ICT System Support Team Manager

Action plan – VFM Conclusion

Rec No.	Recommendation	Management response	Implementation date & responsibility
4	Logs relating to information security events on each system and the network should be to detect inappropriate or anomalous activity.	There is an automatic Protective Monitoring System provided by LogRhythm Limited which performs this task	On-going but review January 2015 Head of Corporate Strategy / ICT System Support Team Manager
5	The policy regarding intruder lockout should be reviewed to ensure that controls are in place to detect repeated attempts at gaining access to the Network Accounts. This should include the requirement for regular reporting and review of failed attempts to log into the Network.	The Protective Monitoring System monitors and reports lockouts and this is based on Microsoft Best Practice. The automatic reporting of lockouts is reviewed by ICT management.	December 2014 Lead Accountant – technical Finance / ICT System Support Team Manager
6	The Council needs to ensure that the completion of the Transformation Programme work streams, their subsequent implementation and the financial impacts are closely monitored.	Agreed. The Council is currently monitoring the 2014/15 financial forecast, including a full review of all Transformation Programme costs and benefits. There is a schedule of reviews of the Transformation Programme by the Co-operative Scrutiny Board, with regular updates to the Audit Committee As part of the 2015/16 Budget + 2016/17 – 2018/19 MTFF setting process, a clear strategy has been agreed to undertake a full review of all programme costs for the period; move the projected benefits away from the Ernst & Young theoretical assumptions and replace them with benefits / additional income as set out in the Full Business Cases being approved by Cabinet & Full Council.	On-going CMT / Assistant Director for Finance / Head of Corporate Strategy

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 Authority financial statements

We have audited the financial statements of Plymouth City Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the Collection Fund 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 2013/14.

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 Assistant Director for Finance and auditor

As explained more fully in the Statement of the Assistant Director for Finance's Responsibilities, the Assistant Director for Finance 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 Assistant Director for Finance; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2013/14 and applicable law.

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 October 2013, 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 2014.

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 October 2013, 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 2014.

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.

OR

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Signature

John Golding, Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

29 September 2014



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