

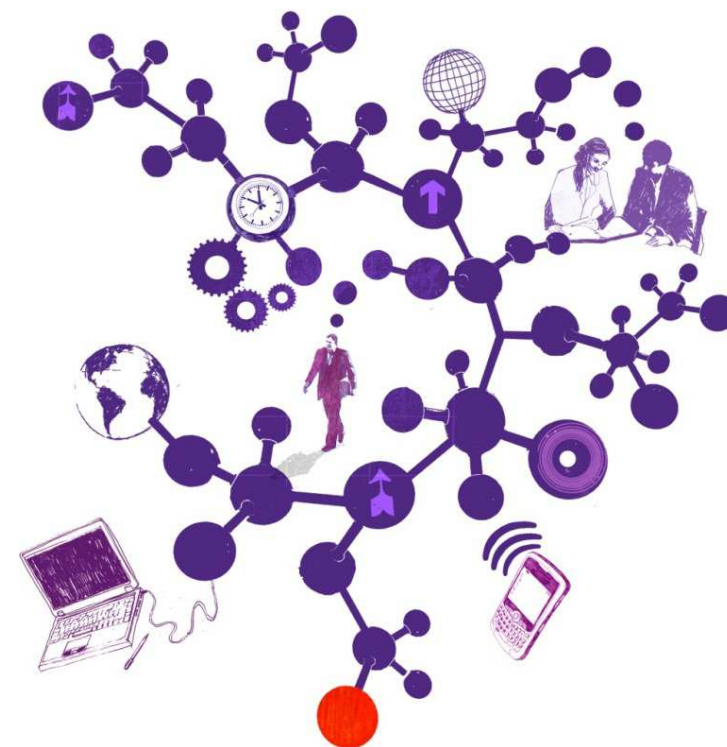
Audit Committee Update for Plymouth City Council

Year ended 31 March 2015

Committee Date: 25 June 2015

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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.

Contents

Section	Page
Introduction	4
Progress at 11 June 2015	5
Emerging issues and developments	
Grant Thornton	8

Introduction

This paper provides the Audit 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.

Members of the Audit Committee can find further useful material on our website 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 referred to in these updates.

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 11 June 2015

Work	Due By	Complete	Comments
<p>2014-15 Audit Fee</p> <p>External Audit fees are determined by the Audit Commission after a period of consultation with the audited bodies.</p>	<p>28 February 2015</p>	<p>Yes</p>	<p>In 2013/14, the Audit Commission increased the audit fee for all Unitary Councils by £1,070 to reflect the fact additional audit work was required on material business rates balances.</p> <p>This additional work was necessary as auditors were no longer required to carry out work to certify NNDR3 returns. The additional fee was 50% of the average fee previously charged for NNDR3 certifications for Unitary Councils.</p> <p>The Audit Commission has included this additional amount in all audit fees for 2014/15. The audit fee is now £182,498 for Plymouth City Council .</p> <p>The indicative certification fee for 2014/15 has been set at £17,720.</p>
<p>2014-15 Accounts Audit Plan</p> <p>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 2014-15 financial statements.</p>	<p>March 2015</p>	<p>Yes</p>	<p>We presented our audit plan to the Audit Committee on 26 March 2015.</p> <p>This plan sets out our understanding of the risks affecting our opinion on your financial statements and our VfM conclusion together with an outline of the work we will do to address these.</p>

Progress at 11 June 2015

Work	Planned date	Complete?	Comments
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion initial risk assessment. 	<p>March 2015</p>	<p>Yes</p>	<p>The findings of our interim audit were summarised in our audit plan.</p> <p>There were no issues we wish to draw to the Audit Committee's attention.</p>
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	<p>30 September 2015</p>	<p>Not yet due</p>	<p>We are planning to commence our fieldwork on 15 June 2015 and aim to have this completed by the end of July.</p> <p>We will report our findings to the Council's Audit Committee on 17 September 2015.</p>

Progress at 11 June 2015

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The work to inform the 2014/15 VfM conclusion assesses the Council's arrangements for:</p> <ul style="list-style-type: none"> • securing financial resilience • challenging how it secures economy, efficiency and effectiveness 	<p>30 September 2015</p>	<p>Not yet due</p>	<p>Our initial risk assessment has been undertaken and further information on the work to underpin our VfM conclusion was included within our audit plan.</p> <p>Our work will focus on:</p> <ul style="list-style-type: none"> • Review of your medium term financial planning • Assessment of your future savings plans and how these impact on the Council's medium term financial planning • Review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan • On-going consideration whether the Better Care Fund is a risk in the context of our VfM conclusion
<p>2014-15 certification work</p> <p>This work is expected to cover:</p> <ul style="list-style-type: none"> • Housing benefits 	<p>30 November 2015</p>	<p>Not yet due</p>	<p>We have made an early start on our certification work in 2014/15.</p> <p>Based on the work undertaken to date, there are no issues we wish to draw to the attention of the Audit Committee.</p>

Developing Local Authority Trading Companies

Grant Thornton Publications

Austerity has made a significant impact on local government. Our report *'Responding to the challenge: alternative delivery models in local government'* looked at the increased use of alternative delivery models to protect and develop services. This trend has continued over the last year.

Whilst some councils have always had a commercial approach, many traditionally avoided commercial considerations. This is no longer the case.

As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures. For many councils, the use of Local Authority Trading Companies (LATCs) is a step towards becoming self-financing.

Over the last five years, we have seen a significant increase in the use of different service delivery models by local government. The introduction of LATCs has been a key part of this innovation. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – they have grown into new areas such as highways, housing and education.

More recently, LATCs dedicated to the delivery of social care services have emerged.

However, the delivery of a successful company is not easy.

Our report *'Spreading their wings'* is the first in a series looking at alternative service delivery models in more detail. The report provides practical guidance – drawn from interviews with councils and from the successful companies we have worked with – on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company

Copies can be obtained via your Engagement Lead or Audit Manager.



Understanding your accounts – Member guidance

Grant Thornton Publications

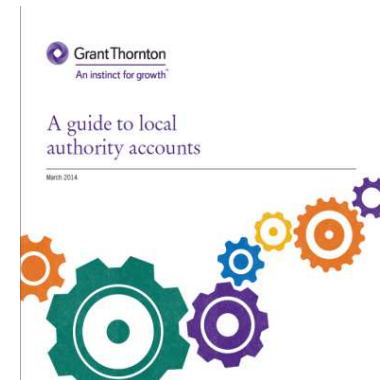
Local authority Audit Committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand.

In 2014 we 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. Any new members to the Audit Committee may find this guide helpful.

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 a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; 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.



Welfare Reform Review: Easing the burden

Grant Thornton market insight

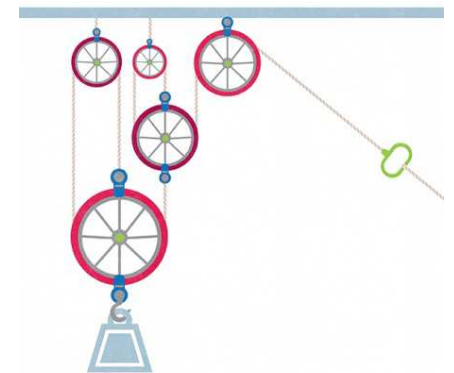
Our second welfare reform report, 'Easing the burden', followed on from 'Reaping the benefits?' to provide insight into the impact of welfare reform on English local authority and social housing organisations over the past two years.

It focused on the governance and management arrangements being put in place in England across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

Key messages:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed had seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There had been limited movement to smaller properties as a result of the spare room subsidy (also known as the bedroom tax) and benefit cap reforms, with generally less than 10% of those affected having moved according to our survey. The shortage of smaller properties for people to move into played a key role in this
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay. Ninety-five per cent of local authorities surveyed think that recipients of DHP allocations are either wholly or partly dependent on DHP to avoid homelessness in the longer-term. Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP and hardship funding, in addition to general funding reductions will inhibit the ability of local authorities and housing associations to pursue early intervention policies that avoid people falling into long-term benefit dependency. This will have cost implications for the medium- to long-term
- The cost of administering housing benefit has risen as a result of welfare reform and now 47% of local authorities and 51% of housing associations surveyed said housing benefit is becoming significantly more costly to administer. This is partly due to the increased complexity of cases

The report 'Easing the burden: The impacts of welfare reform on local government and social housing sector' can be found on our website.





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