



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 2015

7 September 2015

John Golding

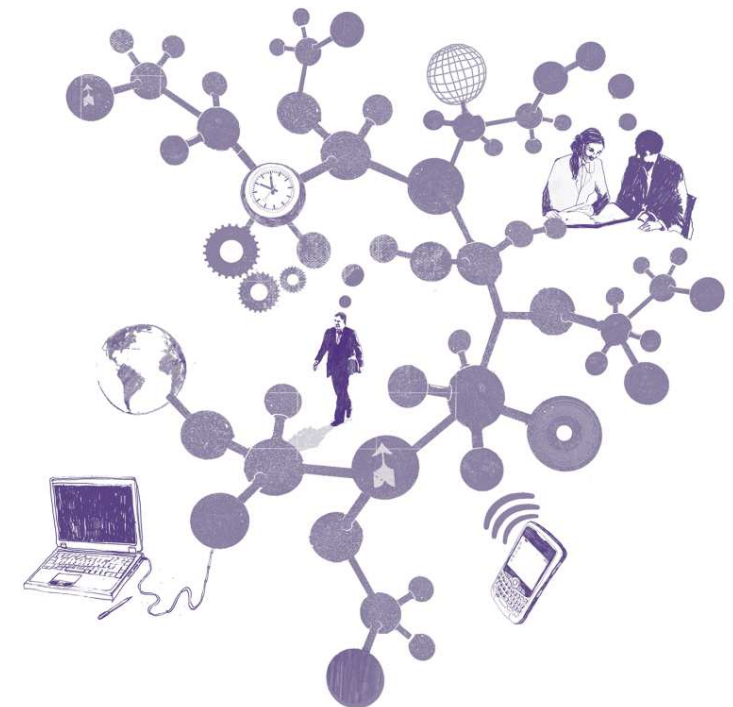
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7 September 2015

Dear Sirs

Audit Findings for Plymouth City Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Plymouth City Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours faithfully

John Golding

Chartered Accountants

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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 2015. 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 UK&I).

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 and 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 amend our planned audit approach, which we communicated to you in our Audit Plan at the March 2015 Audit Committee meeting.

Since issuing our audit plan, the Council has concluded that DELT should be accounted for as a joint venture. As the amounts involved are not material in 2014/15, there were no implications for the Council's financial statements.

We have undertaken additional work in relation to the Council's accounting treatment for schools following updated national guidance. We report on this in section 2 under accounting policies, estimates & judgements.

Our audit is substantially complete although we are finalising our work in a number of areas. In particular, we need to complete our work on the following:

- review of the disclosures in the final version of the financial statements and, in particular, reviewing the capital and financing entries within the MIRs;
- obtaining and reviewing the final management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- completing our review of your Whole of Government Accounts return.

We will update the Audit Committee on the progress of our work on 17 September 2015.

Key issues arising from our audit

Financial statements production

The deadline for the production of the Council's financial statements was 30 June 2015.

However, with the impending shift to a deadline of 31 May – which is effective from 2017/18 – the Council planned for the draft financial statements and supporting working papers to be made available to us on Friday 12 June 2015. We had planned to complete the audit by 31 July.

The financial statements were not made available until Thursday 18 June 2015, whereupon it became apparent that the expected internal quality assurance procedures had not been applied to the standard of previous years. We were therefore unable to complete our fieldwork in line with the previously agreed timetable and needed to undertake further testing in September 2015.

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Council's financial statements.

In keeping with previous years our relationship with the finance team throughout the audit has remained strong.

The key messages arising from our audit of the Council's financial statements are:

- The draft financial statements were not provided in accordance with the agreed timetable and both these, and the supporting working papers, were not prepared to the standard we had come to expect from the Council. We identified a number of inconsistencies within the financial statements and between the financial statements and the working papers.
- Responses to audit queries were not dealt with in a timely manner, sometimes due to the unavailability of key staff during the audit.
- A number of key areas (e.g. accounting for schools, the landfill provision and the sale of the Civic Centre) did not reflect the on-going discussions we had had with the Council throughout the year.

We also identified a number of adjustments to improve the presentation of the financial statements although none of the adjustments had a material effect on the Council's reported financial position as far as its General Fund position is concerned.

The Council should undertake a fundamental review of the process for the production of its financial statements and their subsequent audit, ensuring that there is sufficient time allowed for the completion of robust quality assurance arrangements.

Further details on our financial statements audit are set out in section two 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 three of this report.

Whole of Government Accounts (WGA)

The Council's original submission to the Department for Communities and Local Government (DCLG) was returned by that department due to a number of errors and internal inconsistencies within it.

Once our audit of the Council's financial statements has been completed, we will be in a position to undertake our work in respect of the Whole of Government Accounts submission, in accordance with the national timetable. We will advise the Audit Committee on any findings arising from this work.

Controls**Roles and responsibilities**

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.

Findings

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

Journals

As reported in our audit plan, journals were not authorised before processing. Further information is included on page 16.

IT Controls

In 2013/14 our IT auditors reported that:

- 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.

These issues have still to be addressed by the Council.

Bank Reconciliations

In our audit plan we reported that the bank reconciliations had not been performed and reviewed in a timely manner. These have now been brought up to date.

During our financial statements audit we reviewed the year end bank reconciliation and felt that this could be simplified in order to improve its transparency and help with the review process.

Expenditure Approval

In our audit plan we reported that one payment had been authorised without appropriate supporting documentation. Internal Audit reviewed this and confirmed that this was an isolated incident and that there were no wider internal control implications for the Council.

Further details on internal controls are provided within section two of this report on page 16.

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 Council's Head of Corporate Strategy.

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 Head of Corporate Strategy and 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 2015

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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 26 March 2015. 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

Our proposed 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 (UK&I) 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 (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Plymouth City Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Plymouth City Council, mean that all forms of fraud are seen as unacceptable 	<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 (UK&I) 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>As reported in our audit plan, we have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>A material weakness was again noted as there is no authorisation process for journals prior to their posting. This was reported to the Council in 2012/13 and 2013/14.</p> <p>We have undertaken detailed testing on journal transactions in the year by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p> <p>Our audit work has not identified any evidence of management override of controls. 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	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <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 • substantively tested year end creditors 	Our audit work to date has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <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. However, the original disclosure concerning senior employees required a complete revision due to the large number of errors within it.

Audit findings against other risks (continued)




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</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, including a reconciliation to the main accounting system • checked system parameters • performed analytical procedures • substantively tested welfare expenditure incurred by the Council 	Our audit work to date 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	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
Estimates and judgements	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations and settlements landfill provision Property, Plant and Equipment (PPE) valuations, including revaluations and impairments 	<p>The Council's landfill provision was originally incorrectly stated as it included anticipated income regarding the sale of methane gas. We cover this further in the section on adjusted misstatements on page 19.</p> <p>We have been working with the Council's internal valuers throughout the year regarding PPE valuations, particularly those that were not formally revalued in the year.</p> <p>We are satisfied that the Council has adequate arrangements in place to ensure that all PPE is fairly valued at the balance sheet date.</p> <p>Our work on other key judgements and estimates has not identified any issues we wish to bring to your attention.</p>	 Green

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 continued

Accounting area	Summary	Comments	Assessment
Judgements - local authority maintained schools premises	<p>As noted earlier, updated guidance was issued in the year regarding accounting for schools.</p> <p>The key issue is regarding the actual control over the schools, rather than one of physical ownership.</p>	<p>As part of our detailed audit work, we asked the finance team to provide an assessment of whether the Council exercised control over the various schools in the City. This assessment was done in conjunction with the schools themselves, together with Officers from the Council's estates and education sections. The assessment was undertaken on a school-by-school basis, although there were inevitably similarities between the various categories of schools (e.g. Community, VC, VA or Trust)</p> <p>We were satisfied that there was an adequate rationale for the way in which schools had been treated within the Council's financial statements.</p>	<p style="text-align: center;">● Green</p>
Going concern	<p>The Council has advised us that it has a reasonable expectation that the services it provides will continue for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing its financial statements.</p>	<p>We are awaiting the Council's formal assessment and will provide an update to the Audit Committee. on 17 September 2015.</p>	<p style="text-align: center;">To be confirmed</p>
Other accounting policies	<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>	<p style="text-align: center;">● Green</p>

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)

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	We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit.
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	A letter of representation has been requested from the Council.
4.	Disclosures	Our review found no non-trivial omissions in the financial statements that we specifically wish to draw to the Audit Committee's attention. Issues that have been identified during the course of our audit are referred to in the adjusted misstatements section of this report on page 19.
5.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	We obtained direct confirmations from the Public Works Loan Board (PWLB) for loans, and requested from management permission to send confirmation requests to third parties for bank and investment balances. This permission was granted and the requests were sent. All of these requests, bar one, were returned with positive confirmation. We have chased the outstanding request.

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. We considered and walked through the internal controls for Operating Expenses, Employee Remuneration and Welfare Expenditure, as set out on pages 11 and 12, as well as reviewing other key controls relevant to the Council's financial statements.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Update / Recommendations
1.	 Red	As reported in our audit plan, journals were not authorised before processing.	Recommendation: Sample testing of journals should be undertaken by management in order to ensure that they are appropriate for the Council.
2.	 Amber	In our audit plan we reported that one payment had been authorised without appropriate supporting documentation.	Internal Audit reviewed this and confirmed that this was an isolated incident and that there were no wider internal control implications for the Council.
3.	 Amber	In our audit plan we reported that the bank reconciliations had not been performed and reviewed in a timely manner. During our financial statements audit we reviewed the year end bank reconciliation and felt that this could be simplified in order to improve its transparency and help with the review process.	The bank reconciliations have now been brought up to date. Recommendation: The Council should simplify its bank reconciliation process so that there is a clear and transparent link between the balance on the bank statements and that in its main accounting system.

Assessment


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

Internal controls cont'd

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. We considered and walked through the internal controls for Operating Expenses, Employee Remuneration and Welfare Expenditure, as set out on pages 11 and 12, as well as reviewing other key controls relevant to the Council's financial statements.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Update / Recommendations
4.	 Amber	Our IT auditor again reported that: <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 	These issues have still to be addressed by the Council. We have repeated our recommendations from 2013/14.

Assessment

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

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated in 2013/14 Audit Findings Report	Update on actions taken to address the issue
1.	X	A material weakness was noted in that there was no authorisation process for journals prior to their posting. This was previously reported to the Council.	This weakness was still in place throughout 2014/15. The Council's response to the recommendation in our 2014/15 audit plan was that sample testing of journals will be carried out from 1 May 2015 (i.e. in 2015/16). We have not undertaken any testing on any transactions in 2015/16.
2.	X	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: <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 	Our IT auditor reported the same weaknesses in 2014/15.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
1	The draft Comprehensive Income and Expenditure Statement incorrectly included a number of internal recharges. Although there was no net effect, income and expenditure for Children's and Educational Services were both overstated by approximately £106m. An internal analytical review would have detected this before the financial statements were presented to us.	No net effect	None
2	The Council included anticipated income from the future sale of methane gas over the next 53 years to reduce its landfill provision by £6.6m. This treatment was incorrect as the provision should only include future costs, with any income being recognised in the year to which it relates.	6,609	6,609
3	The Council did not include the Civic Centre within 'assets held for sale' at the year end. Although the sale was for a nominal sum, the building was on the Council's balance sheet at a much higher value and there was a large impact on the financial statements and accompanying notes.	5,453	5,453
4	The Council's cashflow statement contained a number of inconsistencies with the rest of the financial statements, including: <ul style="list-style-type: none"> • the cash and cash equivalents on the balance sheet was correctly shown as £7.063m whereas the cashflow statement showed £5.736m. • Purchase of investment properties were £3.468m on the balance sheet and £2.191m in the cash flow statement. 	None	None

Adjusted misstatements cont'd

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
5	Only one school has its own separate bank account. The year end balance for that school was included as a creditor on the balance sheet rather than as cash and cash equivalents meaning creditors and cash and cash equivalents were both understated by £565k.	None	No net effect
		£12,062	£12,062

Unadjusted misstatements

Based on the work completed to date, there are no unadjusted misstatements within the Council's financial statements.

Impact of uncorrected misstatements in the prior year

There was only one unadjusted item in the Council's financial statements for 2013/14 and this is set out below.

There is no material effect on the Council's financial statements for the year ended 31 March 2015

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	<p>Extract from 2013/14 Audit Findings Report:</p> <p>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>Extract from 2013/14 Audit Findings Report:</p> <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>

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 Creditors note	The total creditors at the year end were correct, although the classification contained two errors. Central Government departments were understated by £20.9m and other entities and individuals were overstated by the same amount.
2 Debtors note	The total debtors at the year end were correct, although the classification contained two errors. Central Government departments were understated by £13.405m and other entities and individuals were overstated by the same amount.
3 Financial Instruments note	The financial instruments disclosure regarding debtors was overstated by £2.813m. The Council had included non-contracted debtors as financial instruments.
4 Taxation and non specific grant income note	The total income for the year was correct, although the analysis contained a number of errors. Council Tax, non domestic rates and capital grants were overstated by £508k, £1714k and £124k respectively, whilst non-ringfenced government grants were understated by £2,346k.
5 Officers remuneration – senior employees	The original disclosure concerning senior employees required a complete revision due to the large number of errors within it.

In addition to the above issues, the draft financial statements included a number of typographical and presentational issues. Although none of these were significant in their own right, they do illustrate the need for a robust quality assurance process in future years.

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
- 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.

The Council has produced a balanced four year revenue budget covering 2015/16 to 2018/19 and a three year capital budget covering 2015/16 to 2017/18. Whilst there remain some uncertainties regarding the levels of future financing, the four year revenue budget includes a savings target of nearly £48m over the period.

These savings will be achieved in a number of ways, but the largest area is the Council's Transformation Programme which will invest £14.7m to deliver more than £55m of savings.

This represents a significant challenge and will require careful and diligent management.

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.

Overall our work highlighted that the Council set out its future direction in its Corporate Plan and it continues to build on this. It focuses on co-operative values which inform the way that the Council goes about its business and helps to shape its future service delivery.

Value for Money

The implementation of the Council's Transformation Programme will fundamentally change the way that services are delivered, focusing on four key areas:

- Growth and municipal enterprise
- Customer and service transformation
- Integrated health and wellbeing services
- Internal support services

The success of the Transformation Programme is fundamental to the Council's medium term financial strategy.

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 2015.

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
Key indicators of financial performance	In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. The Council incurred a small overspend against its 2014/15 revenue budget, due largely to rising cost pressures in respect of adult social care and children's social care services. In addition, at the year end the Council's General Fund was only slightly reduced from prior year levels and its earmarked reserves had increased by over £4m. As a result, we have concluded that the Council continues to have adequate arrangements in place.	Green
Strategic financial planning	<p>The Council has:</p> <ul style="list-style-type: none"> adequately considered the main issues, both local and national, that it faces in agreeing its medium term financial plan adequately reflected the results of its medium term planning in its 2015-16 revenue and capital budgets made reasonable and adequate planning assumptions in its medium term financial plan identified and taken account of funding cuts in its medium term financial plan a fully funded capital programme in place. <p>In particular, the Council has developed a four year revenue budget covering 2015/16 to 2018/19. This includes savings targets of nearly £48m over the period, with almost half of that amount required in 2015/16. The highest risk elements of the 2015/16 savings plans are those associated with the Council's Transformation Programme.</p> <p>The Council needs to maintain its sound financial position by continuing to :</p> <ul style="list-style-type: none"> keep the medium term financial plan up-to-date and plan for a range of potential scenarios ensure that planned saving programmes are delivered. <p>Due to the scale of the financial challenge facing the Council and, in particular, the scale of the savings plans required during 2015/16, we have assessed Strategic Financial Planning as an 'amber' risk.</p>	Amber

Theme	Summary findings	RAG rating
Financial governance	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to make Cabinet aware of financial matters, through timely and comprehensive reports adequate internal and external engagement in the budget setting process. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green
Financial control	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> robust efficiency plans in place, including timescales, which set out savings targets and how they will be delivered arrangements in place to deliver long-term sustainable savings rather than short-term efficiencies. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green
Prioritising resources	<p>The Council has adequate arrangements in place to:</p> <ul style="list-style-type: none"> challenge delivery methods and consider alternative options consult with key stakeholders when challenging delivery methods and alternative options inform and make key decisions on how to make savings to services understand the impact and outcome of decisions that it makes. <p>However, the Council's Transformation Programme continues to have a major impact on both what services are delivered and how they are delivered. It is important that the Council ensures that this programme remains on track and, furthermore, that cost savings in one service area do not result in cost pressures in another.</p>	Amber
Improving efficiency & productivity	<p>In 2013/14, we assessed the Council's arrangements as adequate and we did not identify any risks during our review of key documentation for 2014/15. In particular, the Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to understand its costs and inform its reviews of where cost savings in service delivery can be made sound IT systems and data quality arrangements in place. <p>As a result, we have concluded that the Council continues to have adequate arrangements in place.</p>	Green

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 for the provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	182,498	TBC
Grant certification on behalf of Audit Commission	17,720	TBC
Total audit fees	200,218	TBC

As set out above, this has been a challenging audit and we will need to consider the audit fee. We discussed this with the Council's Head of Corporate Strategy on 7 September 2015 and will advise the Audit Committee of any amount payable in due course.

Fees for other services

Service	Fees £
Audit related services	
Teachers Pensions end of year return (outside of the Audit Commission regime)	4,200
External Audit fee for Delt	4,500
Non audit related services	
VAT advice	5,135
Trading Company advice	3,750

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 Financial Reporting Council'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 (UK&) 260, as well as other (UK&I) 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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should undertake a fundamental review the process for the production of its financial statements and their subsequent audit, ensuring that there is sufficient time allowed for the completion of robust quality assurance arrangements.	High		
2	Recommendation from audit plan: Sample testing of journals should be undertaken by management in order to ensure that they are appropriate for the Council.	Medium	Response from audit plan: Sample testing of journals will be carried out from 1 May 2015. The Finance Systems Team will set up a new procedure to sample journals every month and get them signed off by a manager.	Nick Flay Lead Accountant May 2015
3	The Council should simplify its bank reconciliation process so that there is a clear and transparent link between the balance on the bank statements and that in its main accounting system.	Medium		
4	Information Security Policies should be reviewed at planned intervals or when significant changes occur to ensure their continued suitability, adequacy and effectiveness.	Medium		
5	Logs relating to information security events on each system and the network should be to detect inappropriate or anomalous activity.	Medium		
6	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.	Medium		

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

We have audited the financial statements of Plymouth City Council for the year ended 31 March 2015 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 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 2014/15.

This report is made solely to the members of Plymouth City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 2014/15, 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 also 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 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 2015 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 2014/15 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 are required to 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; or we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 2014, 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 2015.

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.

John Golding

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

Bristol

18 September 2015



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