



PLYMOUTH CITY COUNCIL

REPORT TO THE AUDIT COMMITTEE - DRAFT

Audit for the year ended 31 March 2016 - Issued to the Audit Committee - September 2016

PURPOSE AND USE OF THIS REPORT

We present our report to the Council's Audit Committee which sets out the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express 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 nor 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 and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit.



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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the outstanding matters on page 16 of this report
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated 14 March 2016.
- Our materiality levels have not required reassessment since our audit planning referred to above.

KEY AUDIT AND ACCOUNTING MATTERS

- The key matters that have arisen in the course of our audit are summarised below:
 - i. The deficit on the provision of services is understated by £416,000. This is due to the fact that the Council received updated Tamar Bridge and Torpoint Ferry Statements after the main accounts were completed. The Council considered amending the accounts, but the adjustment is below the materiality level and so amendment was not considered necessary.
 - ii. An error was identified in the Comprehensive Income and Expenditure Statement due to a capital adjustment.
 - iii. The Council published the draft Statement of Accounts by the 30th June 2016 deadline, but were not able to supply these in full within the originally agreed deadline of 13 June 2016 due to staffing changes. As a consequence of the of staffing changes at the Council and this being the first year that we audited the Council we had to perform additional testing to support our audit opinion. There were some delays resulting in some additional audit costs.

AUDIT OPINION

- Subject to the successful resolution of outstanding matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016
- We have no matters to report in relation to the Annual Governance Statement
- We are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

- Our review of the Council's Whole of Government Accounts (WGA) data collection tool is still in progress
- We received an elector's objection regarding the authorisation of expenditure for the MTV Crashes event held in 2015. While we have not identified any significant issues as a result of this but have raised some recommendations to improve the clarity of the Council's processes around authorising such activities. We are awaiting the elector's response to our findings and will confirm the latest position and the impact on the date of our audit certificate at the Audit Committee.
- Our observations on the quality of the audit and our audit independence and objectivity and related to matters are set out in Appendices VIII and V.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated March 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have not identified any additional significant risks.

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standards presume that a risk of management override of controls is present in all entities.	We reviewed the appropriateness of journal entries and other adjustments to the financial statements. We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. We also consider there to be a significant risk in relation to the completeness and existence of fees and charges and property rental income recorded in the CIES.	We carried out procedures to gain an understanding of the Council's internal control environment relevant to preventing loss of income and ensuring that income is recognised in the correct accounting period. We tested a sample of transactions to confirm that it was appropriate to recognise the income and that it had recorded in the correct accounting period.	No issues have been identified by our testing of revenue.
Waste to energy PFI	The Council, in partnership with Torbay Council and Devon County Council is a member of the SW Devon Waste Partnership. The Partnership has jointly procured a waste to energy arrangement run by MVV Umwelt through a Private Finance Initiative and the facility became operational in September 2015.	We reviewed the accounting of the scheme, using a PFI specialist within the BDO team. This was complex because the Councils disagreed with the financial advice given by their advisors, although the advisors did say that it was finely balanced. We also reviewed the way the scheme was accounted for in the financial statements.	We are satisfied that the Council's treatment of this scheme has been appropriate.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk** ■ **Other issue**

	NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
Investment Property valuations	The Code has introduced a change in the basis of valuation of investment properties (IFRS 13), from a market value to a 'highest and best use' valuation. The Council will instruct the valuer to carry out the annual valuation of the investment property portfolio having regard to the possibility of significant change in valuations under the highest and best use approach.	We tested a sample of properties to confirm the property met the Investment Property definition and confirmed the valuation basis.	We are satisfied that the Council's treatment of its investment properties has been appropriate.
Property Plant and Equipment (PPE) valuations.	Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. Valuations are performed at least every five years.	We reviewed the valuation performed by the Council's external value and tested a sample of assets to confirm the valuation had been correctly accounted for.	We are satisfied that the Council's treatment of its PPE has been appropriate.
Group Entities	The Council has a financial interest in a number of other entities including CaterED, a company providing catering to schools and DELT, a joint venture with NEW Devon CCG. The Council is also a partner with the CCG in a pooled budget for health and social care.	We reviewed the accounts of both CaterEd and DELT, which were not consolidated . We also tested the expenditure relating to the pooled budget and liaised with the auditors of NEW Devon CCG.	We are satisfied that the Council's decision to not consolidate the results of CaterED and DELT was appropriate on the grounds that the adjustments would have been immaterial. We are also satisfied that the treatment of the Council's transactions in connection with the pooled budget are also correct.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk** ■ **Other issue**

	NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
Pension Liability assumptions	<p>The net pension liability comprises the authority's share of the market value of assets held in the Local Government Pension Scheme (LGPS) and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We tested the amounts and disclosures recorded in the Council's accounts to information provided by the Pension Fund actuary. We also requested information from the LGPS auditor to provide assurance on the amounts disclosed in the Council's accounts.</p>	<p>The amounts and disclosures made by the Council have been appropriate (subject to final completion of our procedures including receipt of information from the Pension Fund auditor).</p>
Non-domestic rates appeals provision	<p>Billing authorities are required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. Management use information provided by the Valuations Office to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.</p> <p>We consider there to be a risk in relation to the estimation of the provision.</p>	<p>We have reviewed the information provided by management to support the basis of the provision.</p>	<p>The approach followed to calculate the provision has been reasonable.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk** ■ **Other issue**

	NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
HIGHWAYS NETWORK ASSETS	The Code will adopt the revised basis for valuations of highways network assets from 2016/17 (depreciated historic cost to depreciated replacement cost), and this will require implementation from 1 April 2016 but with no restatement for 2015/16.	We reviewed the “new Accounting Standards adopted but not yet implemented” disclosure.	No matters arising.
RELATED PARTY TRANSACTIONS	We need to consider if the related parties disclosures in the financial statements are complete and adequate.	We reviewed the Council’s procedures for identifying related party transactions for disclosure in the related parties note, including signed declaration forms from members and senior officers. We carried out Companies House checks for a sample of members and senior officers and checked the completeness of interests included in the declaration forms. We also considered the completeness of related party disclosures based on knowledge gained from our other audit work.	The Council has adequate procedures for identifying related party transactions and our audit did not identify any omissions or inaccuracies in the related parties note in the financial statements.
NARRATIVE REPORTING	The Council is required to prepare a “Narrative Report” which replaced the Explanatory Foreword	We reviewed the Council’s Narrative Report to confirm that it contained all the required disclosures. We also assessed the Report against the knowledge that we have obtained as auditor.	No matters arising.
FRAUD AND ERROR	We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error.	Our audit procedures have not identified any material errors due to fraud.	No matters arising.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

ESTIMATES

PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date.

The valuation land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices).

The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances. >

AUDIT FINDINGS AND CONCLUSIONS

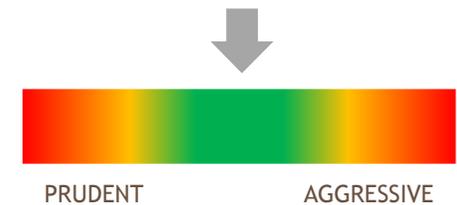
The Council engaged an external valuer to value its land and buildings as at 31 March 2016. This resulted in a net upwards revaluation movement of approximately £3 million in the year for PPE and Investment Property.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.

We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.

The valuer also confirmed that there was no material movement in valuation between the valuation date and year end. This was corroborated by review of available market information.



KEY AUDIT AND ACCOUNTING MATTERS

Continued

ESTIMATES

PENSION LIABILITY ASSUMPTIONS

The pension liability comprises the Council’s share of the market value of assets held in the Devon County Council Local Government Pension Scheme (LGPS) and the Council’s share of the value of the estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.

We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report. >

AUDIT FINDINGS AND CONCLUSIONS

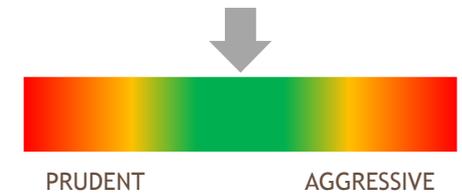
As at 31 March 2016 net pension deficit disclosed in the Balance Sheet amounted to approximately £455 million (deficit at 31 March 2015 was £505 million).

It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement.

The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council’s liabilities as at 31 March 2016 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions.

The key changes to the financial assumptions related to an increase in the discount rate for discounting scheme liabilities to 3.7% from the prior year rate of 3.3%.

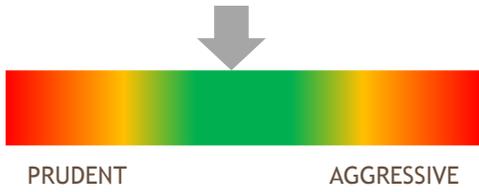
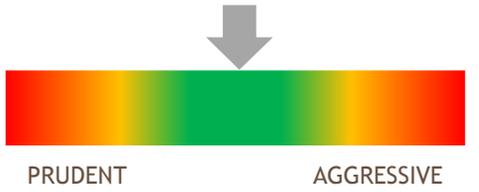
We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.



KEY AUDIT AND ACCOUNTING MATTERS

Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES</p> <p>The Council’s largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and business rates.</p> <p>The Council estimates the housing benefits overpayments impairment allowance using collection rate data. For Collection Fund debtors, the impairment allowances are based on write off rates, as credit control processes are robust and amounts are only written out after all recovery procedures are exhausted, which can take many years.</p> <p>We have reviewed management’s calculations and considered the reasonableness of the estimates .</p>	<p>Overall we have concluded that the impairment allowances for receivables are reasonable.</p> <p>Council tax arrears</p> <p>The total allowance for the non-collectability of Council Tax amounted to £3.1 million at 31 March 2016. This represents an increase of approximately £0.5 million compared to the prior year. We are satisfied that the impairment calculation is based on actual write off rates and is reasonable.</p> <p>Business rates arrears</p> <p>The total impairment allowance for the Collection Fund at 31 March 2016 is £0.7 million, a reduction of £0.2 million from the prior year.</p> <p>We are satisfied that the impairment calculation is based on actual write off rates and is reasonable.</p>
<p>NON DOMESTIC RATES APPEALS PROVISION</p> <p>The Collection Fund has provided £2.1 million in respect of appeals against rateable value that have not settled at 31 March 2016.</p>	<p>We have considered the basis of the provision and consider it is reasonable.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA

AUDIT FINDINGS AND CONCLUSIONS

OTHER DISCLOSURE ISSUES >

We agreed a number of changes to the narrative supporting the financial statements including the removal of obsolete lines from the accounts. We also agreed a post balance sheet event disclosure note on the result of the referendum on the UK to leave the European Union.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER		COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated March 2016
2	An overview of the planned scope and timing of the audit	See our audit planning report to you dated March 2016
3	Significant difficulties encountered during the audit	All relevant matters have been included within this report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	All such matters have been dealt with elsewhere in this report.
5	Written representations which we seek	A draft version of the written representations forms Appendix VI.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	We have no matters to report.

SUMMARY OF AUDIT FINDINGS

STATUS	REPORTING LEVEL
 Not started	Significant issue
 In progress	Raised for your attention
 Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Journals		N	N	N	N
	Property, plant and equipment		Y	Y	N	N
	Debtors		N	N	N	N
	Cash and cash equivalents		N	N	N	N
	Short and long term investments		N	N	N	N
	Creditors		N	N	N	N
	Short and long term borrowing		N	N	N	N
	Employee benefits		Y	N	Y	Y
	Other expenditure		Y	N	Y	Y
	Grant income		N	N	N	N
	Other income		N	N	N	N
	Collection fund		N	N	N	N
	Related party transactions		N	N	N	N
	Financial instruments		N	N	N	N
	Cash Flow Statement		N	N	N	N

SUMMARY OF AUDIT FINDINGS

STATUS		RISK LEVEL	
	Not started		Significant issue
	In progress		Raised for your attention
	Complete		No issue identified

AUDIT WORK STATUS		RISK LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Whole of Government Accounts		N	N	N	N
	Annual Governance Statement		N	N	N	N
	Narrative Report		N	N	N	N
	Use of resources		N	N	N	N

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the **Audit Committee** at which this report is considered:

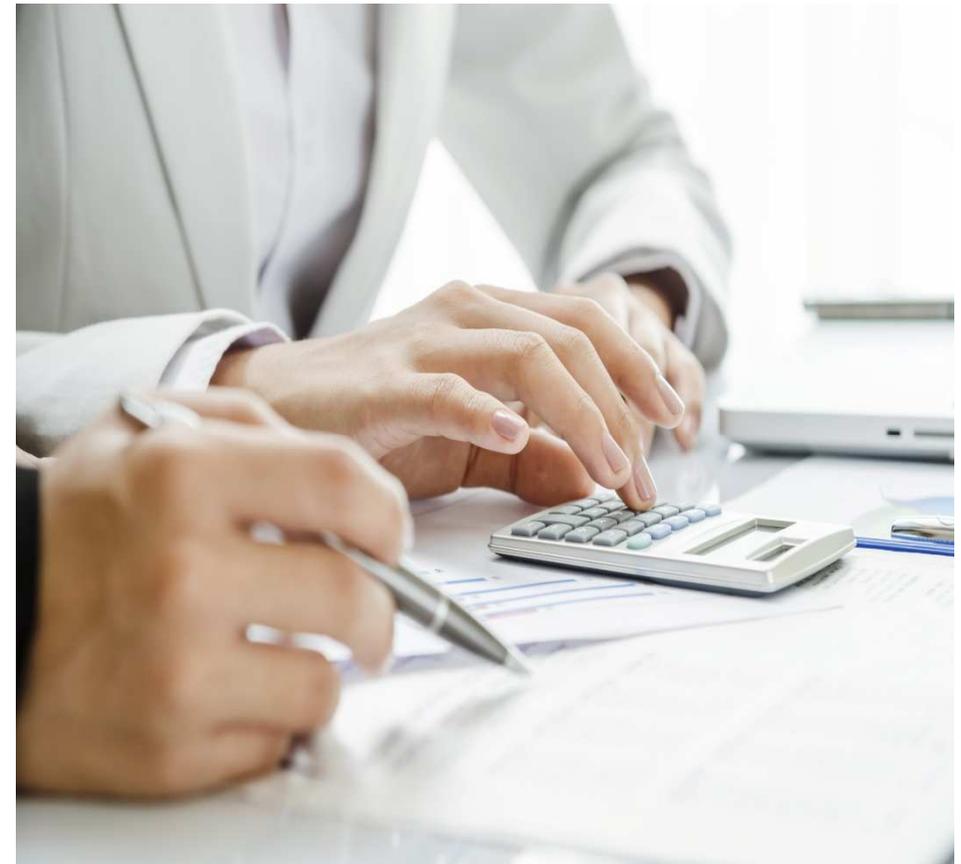
- 1 Clearance of outstanding issues we have raised with management including final review of accounts

- 2 Receipt of audited accounts for CaterED

- 3 Review and agreement of the final WGA data collection tool against the final set of financial statements

- 4 Completion of subsequent events audit work

- 5 Management representation letter, as attached in Appendix VI to be approved and signed



OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	<p>The Council's draft financial statements, were signed on 30 June 2016 deadline.</p> <p>The Council's finance team continued to work on these draft financial statements up until the deadline.</p> <p>We noted that a revised version of the accounts was placed on the Council's website after 30 June and these have subsequently been removed.</p> <p>A number of errors were identified after 30 June</p>	<p>We commenced our fieldwork for the final audit in June 2016 and were provided with an early draft of the accounts .</p> <p>The signed draft was provided on 30 June 2016, the final date before the statutory deadline and members of the Council's finance team needed to work up to the deadline to achieve the statutory timeframe. There were staffing changes within the finance team that added to the difficulties.</p> <p>One implication of the need for key Council officers to continue working on the accounts up to the 30 June deadline was that it was difficult to obtain documents and explanations in the early stages of the fieldwork. We also identified that some of the schedules and working papers that we had been provided with when we commenced our work needed to be corrected and that some of the early audit work needed to subsequently be-performed. This has resulted in additional audit costs. However, there was a significant improvement in the position following a progress meeting held mid audit. We also recognise that this was our first year as the Council's auditors and there are areas we can improve on as well and will review with the Council the operation of the off-site working arrangements in the early phases of the final audit.</p> <p>The accounts that were initially placed on the Council's website on 30 June 2016 and are available for public inspection have also been subject to change. The Council's Assistant Director for Finance and Section 151 Officer will be preparing a report setting out the changes and presenting this to the Audit Committee on 15 September 2016.</p> <p>The most significant change related to an adjustment of approximately £50 million relating to the revaluation of assets and was initially incorrectly accounted for in the accounts. The major cause of the error related to revaluation of assets initially being accounted for as a deficit in the Consolidated Income and Expenditure Statement.</p> <p>We agreed that the revised version that were posted on the Council's website after 30 June 2016 should be removed until the audit is complete.</p>
2	<p>We review the Annual Governance Statement to confirm that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.</p>	<p>The Council goes through a detailed process involving several key officers to prepare its Annual Governance Statement.</p> <p>We have no matters to report.</p>
3	<p>We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p>	<p>We have no matters to report.</p>

CONTROL ENVIRONMENT

Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal controls.

SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Quality control over audit working papers	As part of our planning, we had provided a detailed “request list” of working papers to support the draft financial statements and we commenced the detailed work in connection with our final visit in mid-June. However, the working papers that we were initially provided with contained many errors and frequently did not agree to the balance to which it related.	Significant delays in performing the audit work and errors in the financial statements.	Review disclosure notes in the financial statements prior to publishing the draft statements on the website. Ensure that the review is performed by an individual who is not responsible for the production of the note. Ensure there are sufficient resources within the finance team for the final audit.	We have already held two debrief sessions with senior finance management and finance staff to download what went well, what could have gone better and started the planning process for 2016/17 accounts. We recognise the need for improved QA. We have also discussed with you about PCC setting an internal publication date on which we will hand over the final draft set of accounts to BDO, this will ensure there are no movements or room for balances to change after the start of the audit. We will start early discussions and engagement with BDO.
Audit of payroll costs	The audit of payroll costs was difficult because of the absence of a clear reconciliation confirming the correct and accurate processing of the Council’s payroll.	Risk of error in payroll numbers and risk of additional audit costs.	A monthly reconciliation confirming payroll costs should be produced.	Agreed and procedures will be put in place for 2016/17

CONTROL ENVIRONMENT

Other deficiencies and observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Lease documentation	<p>One of our sample of leases where the Council is the lessor could not be located during the audit.</p> <p>Failure to have adequate documentation about each lease arrangement could create issues. For example, the Council could lose income if the arrangement contained an option to increase prices if there is no documentation to support the lease.</p>	Potentially inaccurate disclosure in the notes to the Statements and financial loss arising from error.	Although this related to an immaterial lease, this does raise a concern over the maintenance of the lease information and therefore the accuracy of disclosures in the financial statements. Lease information should be reviewed periodically against supporting documentation to ensure that the list is complete and that there is supporting documentation for all leases included in the list.	The lease in question was for £50. Documentation available was supplied. We will ensure that all service areas undertake a complete review of the leases held.
Embedded leases	The review of new contracts for embedded leases is performed infrequently and documented inconsistently. The last full review was for the 2013-14 financial year. The column in the Contracts Register is incomplete, with a number of contracts not annotated as reviewed.	There could be unidentified embedded leases that are being accounted for incorrectly, causing misstatements.	The policy for reviewing new contracts as they are entered onto the contracts register should be communicated to staff involved and there should be a review of the schedule periodically to ensure that it has been completed fully. Also, a test of this procedure or these contracts by IA would also confirm appropriateness of the control.	The Procurement Team are responsible for reviewing new contracts for embedded leases. The Contracts Register is currently being reviewed and as part of this process we will highlight the importance of identifying embedded leases in the contract information we hold.
Fixed asset register	The testing of the rolling revaluation note discovered that there are some assets that are identified as being held at FV on the fixed asset register that are actually held at historical cost.	Potential for misunderstanding or unnecessary expenditure in the event that an asset is valued that does not require this.	Update the fixed asset register to reflect the correct treatment of assets in the accounts so as to avoid the requirement to rely on memory and avoid potential complications.	We will be thoroughly reviewing the data provided for fixed assets as part of our closedown project for next year.

CONTROL ENVIRONMENT

Other deficiencies and observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Employee taxes	<p>As part of our audit procedures, we obtained input from one of our Employee tax specialists to provide assurance in connection with employee taxes.</p> <p>A small number of immaterial matters were raised and we have notified management.</p>	Possible failure to pay correct tax resulting in penalties to the Council.	Review issues raised by the BDO specialist and check that Council procedures address the point raised.	PCC Finance become aware of this report at our Director meeting mid August - we had no knowledge this work was commissioned. Having seen the report, we are working through the recommendations .
IT controls	We obtained input from one of our IT specialists to provide assurance around IT related controls. A number of matters were raised with management including a need to review user access and to also formally document procedures for leavers so that access rights are promptly removed when an employee leaves.	Inappropriate access to the Council's IT systems leading to fraud.	Access controls should be reviewed and leaver procedures updated to ensure that access rights are terminated promptly after a member of staff leaves the organisation.	We are currently working with HR to improve the information provided relating to staff changes and will be using this to update access controls regularly.
Elector's question: MTV crashes	<p>We received an objection relating to the MTV Crashes event. We considered one part of the objection as relevant to our responsibilities, as it was claimed that the Council's expenditure on the event was not properly authorised as the minute of the relevant Cabinet decision stated that it would be 'cost neutral'. We found that there was reference to an element of risk in the covering paper (albeit low risk) and that wider benefits were claimed for the event, therefore we were satisfied that the authorisation was adequate. However, the covering paper could have included more detail on the risk, including a sensitivity analysis and the minute of the decision could also have reflected this.</p> <p>We would also expect a paper to be prepared for Members to explain the reasons for any variance.</p>	Risks need to be fully considered for any decision that may involve public expenditure or there may be unexpected overspends and challenges to decisions made.	<p>When the Council is committing to underwriting an event or activity, a detailed risk assessment should be performed and a summary of this presented to Members who will approve the decision, with an appropriate reference in the decision minute.</p> <p>Following the event, where there has been a significant financial adverse variance, a paper explaining the reasons for the variance should be presented to Members.</p>	This has been noted and financial risks will feature more prominently in future reports.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
<p>For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.</p>	<p>HM Treasury's WGA team issued a newsletter in June 2016 to explain the delay in issuing the DCT which was released on Monday 4 July. This means that local authorities' deadline to submit the unaudited DCT to HM Treasury has been extended to 12 August 2016 and similarly our deadline to issue our audit opinion on the DCT has been extended to 21 October 2016.</p> <p>Our review of the Council's WGA Data Collection Tool (DCT) is in progress.</p>

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued in March 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>SUSTAINABLE FINANCES</p>	<p>The Council has identified a financial resources shortfall of £23.9 million for 2016/17 and identified a savings programme to address this shortfall and eliminate the “budget gap” for 2016/17.</p> <p>The reduced level of financial resources ,combined with additional pressures, will require the Council to continue to achieve savings. For example, the Council’s Medium Term Financial Plan (MTFP) indicates that for the period from April 2017 to March 2020 further savings of approximately £37 million are required.</p> <p>We considered the Council’s MTFP and the basis of the assumptions within these forecasts. We also obtained details of the Council’s processes for managing the major transformation that will be required to achieve the cost savings. This included details of the Council’s monitoring arrangements and we reviewed the position at 30 June 2016.</p>	<p>The Council has prepared a medium term financial plan (MTFP) and has also instituted a process that seeks to address the financial challenge. It is evident that management have identified the successful achievement of the budget as a key priority and there is substantial focus on the steps that need to be taken.</p> <p>The Council has developed arrangements that are reasonable and close monitoring is in place. The detailed analysis of year to date net spend at the end of Quarter 1 (to 30 June 2016)’s identified a shortfall against the 2016/17 budget of approximately £3.8 million. Steps are being taken to address this shortfall.</p> <p>The Council is facing a major financial challenge but the arrangements in place are currently reasonable.</p>

USE OF RESOURCES

Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
INFORMED DECISION MAKING	<p>The NAO guidance includes assessing the arrangements for managing resources and making informed decisions. These arrangements are closely linked to the work in connection with sustainable resource deployment.</p>	<p>The Council has a reasonable arrangements in place.</p>
WORKING WITH PARTNERS AND OTHER THIRD PARTIES	<p>The guidance from the NAO on value for money requires us to consider partnership working by the Council.</p> <p>The Council has a number of partnership arrangements in place, including DELT, the waste to energy PFI and Better Care Fund (BCF). As with any partnership arrangements, there are risks around governance, control and value for money.</p>	<p>The Council has developed many arrangements with other organisations and in addition to the Integrated Fund with NEW Devon CCG, the Tamar Bridge and Tor Point Ferry operation represents a long-standing joint operation with Cornwall County Council. The Council’s arrangements with NEW Devon CCG are innovative and include genuine risk pooling and some joint Audit Committee meetings with the CCG.</p> <p>In addition, the Council has created a joint venture company with the CCG to provide IT services and the opportunity to expand DELT’s scope of work and customer base represents a future commercial opportunity.</p> <p>The Council has reasonable arrangements in place for working with others and the governance arrangements are satisfactory.</p>

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Plymouth City Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit Committee.
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: <ul style="list-style-type: none"> The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLICE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Management has made corrections in the revised draft financial statements .

A report identifying the changes is to be prepared for the Audit Committee by the Council's Assistant Director for Finance & Section 151 Officer.

UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference identified by our audit work which would increase the deficit on the provision of services in the CIES by £416,000 to £41.1 million (from £40.65 million) if adjusted.

A schedule showing the uncorrected audit difference is included on the following page, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

APPENDIX II: AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		DR £'000	CR £'000	DR £'000	CR £'000
(Surplus)/deficit on the provision of services	40,650				
DR Re-measurement of the net defined benefit liability		416			
CR Defined benefit pension liability					416
This factual misstatement is due to the fact that the Council received updated Tamar Bridge and Torpoint Ferry financial statements after the main accounts were completed. The Council considered amending the accounts, but the adjustment is below the materiality level and so amendment was not considered necessary.	416				
TOTAL UNADJUSTED AUDIT DIFFERENCES					
(Surplus)/deficit on the provision of services if adjustments accounted for	41,066				

APPENDIX II: AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES

IMPACT ON GENERAL FUND	GENERAL FUND BALANCE £'000
Balances before adjustments	10,652
Adjustments to CIES above	(416)
BALANCES AFTER ADJUSTMENTS	10,236

UNADJUSTED DISCLOSURE MATTERS

No unadjusted disclosure matters were noted.

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£10.8 million	£10.8 million
Clearly trivial threshold	£324,000	£324,000

Planning materiality of £10.8 million was based on 2% of gross expenditure, using forecast outturn .

We had no reason to revise our final materiality level.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

This is our first year of auditing the Council and accordingly no members of our team have been members of the Council's audit team for more than one year.

We have provided services other than audit to the Council as set out in Appendix V.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2015/16	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
	£		
Audit fee	136,784	N/A	N/A
Additional costs incurred	24,830	N/A	N/A
Audit of PFI Waste to Energy accounting arrangements, including involvement of PFI specialist.	10,000	N/A	N/A
Certification fee (Housing benefits subsidy claim)	17,477	N/A	N/A
TOTAL AUDIT FEE	189,091		

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

<Date> <Month> <Year>

Dear Sirs

Financial statements of Plymouth City Council for the year ended 31 March 2016

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Assistant Director for Finance & Section 151 Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

APPENDIX VI: DRAFT REPRESENTATION LETTER

Continued

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Andrew Hardingham

Assistant Director for Finance & Section 151 Officer

[date]

[Name]

[Title]

Signed on behalf of the Audit Committee

[date]

APPENDIX VII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.





FOR MORE INFORMATION:

Greg Rubins

Engagement lead

T: 02380 881892

E: greg.rubins@bdo.co.uk

Pamela Evans

Project manager

T: 0117 930 1584

E: pamela.evans@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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