



# PLYMOUTH CITY COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



# EXECUTIVE SUMMARY

## Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 31 March 2016. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

## Responsibilities of auditors and the Council

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.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code), and to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP  
October 2016

## Audit conclusions

### FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 23rd September 2016.

We reported our detailed findings to the Audit Committee on 15th September 2016.

### USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 23rd September 2016.

The Council has prepared a Medium Term Financial Plan (MTFP) which has identified a need to achieve savings of approximately £24 million in 2016/17 to bring expenditure in-line with the forecast level of financial resources. Grant funding is forecast to decline further in future years requiring further substantial savings in the period to at least 2020.

We considered the Council's arrangements and concluded that they are currently reasonable but the scale of the financial challenge will require the position to be closely monitored.

### EXERCISE OF STATUTORY POWERS

An elector made an objection in connection with expenditure incurred in connection with an event for which the Council provided financial support. We did not identify any significant issues as a result of this investigation but did identify some recommendations to improve the clarity of the Council's processes for authorising such activities.

### GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of grant claims is in progress and the results will be reported upon completion of this work.

# FINANCIAL STATEMENTS

## OPINION

We issued an unqualified true and fair opinion on the financial statements on 23rd September 2016.

### 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 they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

### Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

REVENUE RECOGNITION	RESPONSE	FINDINGS
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.	<p>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.</p> <p>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.</p>	No issues were identified by our testing of revenue.
WASTE TO ENERGY PFI	RESPONSE	FINDINGS
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 three 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.

# FINANCIAL STATEMENTS

## Continued

PROPERTY PLANT AND EQUIPMENT (PPE)	RESPONSE	FINDINGS
<p>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.</p>	<p>We reviewed the valuation performed by the Council’s external valuer and tested a sample of assets to confirm the valuation had been correctly accounted for.</p>	<p>We are satisfied that the Council’s treatment of its PPE has been appropriate.</p>
GROUP ENTITIES	RESPONSE	FINDINGS
<p>The Council has a financial interest in a number of entities including a majority holding in CaterED, a company providing catering to schools and DELT, a joint venture with NEW Devon CCG.</p> <p>The Council is also a partner with the CCG in a pooled budget for health and social care.</p>	<p>We reviewed the accounts of both CaterEd and DELT, which were not consolidated.</p> <p>We also tested the expenditure relating to the pooled budget and liaised with the auditors of NEW Devon CCG.</p>	<p>The Council chose not to prepare Group Accounts on the basis that consolidation would not have materially affected the Council’s accounts. We are satisfied that this decision was reasonable on the grounds that the adjustments would not have been material.</p> <p>We are also satisfied that the treatment of the Council’s transactions in connection with the pooled budget were correct.</p>
PENSIONS ASSUMPTIONS	RESPONSE	FINDINGS
<p>The Council’s pension liability comprises a share of the market value of assets held in the Local Government Pension Scheme (LGPS) administered by Devon County Council 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 Devon County Council Pension Fund actuary. We also requested information from the auditor of the Devon Pension Fund 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.</p>

# FINANCIAL STATEMENTS

## Continued

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £10.8 million. This was determined by reference to the Council's expenditure and which we consider to be one of the principal considerations for the Council in assessing financial performance. The agreed materiality level represents approximately 1.75% of the Council's gross expenditure.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £324,000.

### Audit differences

We identified a misstatement of £416,000 relating to the pension liability that was identified when the accounts for the Tamar Bridge and Tor Point Ferry were finalised. The Council considered amending the accounts but the amount was below the materiality level set during the audit and amendment was not necessary.

### Other matters we report on

#### Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

### Other matters we report on (continued)

#### Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We are satisfied that the information given in the 2015/16 narrative report is consistent with the financial statements.

#### Internal controls

We did not find any significant deficiencies in internal controls during the course of our audit. A number of areas for improvement were identified which we have discussed with management. These include improvements to be made to the final accounts process.

#### Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by councils where expenditure exceeds £350 million.

We have completed our review in accordance with the Instructions issued by the National Audit Office. This required that we compare the information in your Data Collection Tool (DCT) submission with the audited financial statements, undertake testing of completeness and accuracy of WGA counterparty transactions and balances, and provide an assurance statement to the National Audit Office.

We have no issues to report.

# USE OF RESOURCES

**CONCLUSION** We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 23rd September 2016.

### Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources 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.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

### Our assessment of significant risks

Our audit was scoped by information obtained from your previous auditor, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>The Council has prepared a Medium Term Financial Plan (MTFP) which has identified a financial resources shortfall of approximately £24 million in 2016/17.</p> <p>Looking longer-term, the MTFP identifies additional financial pressures. Current forecasts indicate that further savings of approximately £37 million in the three years from 2017 to 2020 will be required.</p>	<p>We considered the Council’s MTFP and the basis of the assumptions within these forecasts.</p> <p>We also obtained details of the Council’s processes for managing the major transformation that will be required to achieve the cost savings and reviewed the arrangements for monitoring progress against financial targets.</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

WORKING WITH OTHER ORGANISATIONS	RESPONSE	FINDINGS
<p>The Council has a number of partnership arrangements in place, including DELT (a joint venture company with NHS NEW Devon CCG), a waste to energy PFI involving other local authorities and a Better Care Fund (BCF) arrangement.</p> <p>As with any partnership arrangements, there are risks around governance, control and value for money and therefore for existing partnerships these do need to be assessed regularly. Similarly, for any new proposed partnership arrangement the arrangements should be assessed in advance of entering the new arrangement. At the same time, it is important that the Council remains alert to opportunities to work with others and continues to seek out opportunities to work innovatively with its partners.</p>	<p>We responded to this risk by assessing the arrangements the Council has in place and the extent to which the Council works with others in the area.</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, in partnership with NHS NEW Devon CCG, the Council has created a joint venture (JV) company (DELT) to provide IT services to both the Council and the CCG. The creation of the JV provides an opportunity to expand the scope of DELT’s work and its customer base and therefore 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>

# EXERCISE OF STATUTORY POWERS

## REPORT BY EXCEPTION

We have undertaken work in connection with an elector objection that we received relating to the Council's financial support for the MTV Crashes event.

### Use of statutory powers

During the audit, we received notice that a local elector wished to make an objection in connection with expenditure incurred by the Council when it provided financial support for the MTV Crashes event in 2015.

The objection claimed that the Council's expenditure in supporting the event had not been properly authorised and therefore was potentially unlawful. We investigated the background to the decision including reviewing the papers prepared for Cabinet and the minutes of the meeting. We concluded that adequate authorisation for the expenditure had been given.

Unless new information is brought to our attention there is nothing further for us to investigate with regard to this matter. We did, however, note that it would have been helpful if the papers that were provided to members in connection with the event had been significantly clearer about the financial risks for the Council.

We have discussed this matter with officers and agreed that officers will ensure that the financial risks associated with future events are made clearer in reports to members and that any significant overspends will be reported back to members.

### Audit certificate

We have formally concluded our audit and issued our Audit Certificate on 28 October 2016.

# GRANT CLAIMS AND CERTIFICATION

## CERTIFICATION WORK

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

### Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and we anticipate that it will be completed ahead of the submission deadline of 30 November 2016.

### Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

At the date of this report, there are no other claims or returns that are being reviewed by us.

---

# APPENDIX

## Reports issues

We have issued the following reports

REPORT	DATE
Audit Plan	March 2016
Final audit report	September 2016
Annual Audit Letter	October 2016

## Fees

We reported our original fee proposals in our Audit Plan and the latest estimate of our fee for 2015/16 are set out below.

AUDIT AREA	PLANNED FEES	FINAL FEES
Code audit	£136,784	£149,199
Treatment of PFI waste to energy scheme	£10,000	£10,000
Certification of housing benefits subsidy	£17,477	£17,477
Elector objection	Up to £10,000	£8,610
<b>Fee for audit services</b>	<b>£174,261</b>	<b>£185,286</b>
Audit related services:		
- None	Nil	Nil
<b>Fee for audit related services</b>	<b>Nil</b>	<b>Nil</b>
Non audit related services:		
- None	Nil	Nil
<b>Total fees</b>	<b>£174,261</b>	<b>£185,286</b>

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2016 BDO LLP. All rights reserved.

**[www.bdo.co.uk](http://www.bdo.co.uk)**

**GREG RUBINS**  
Engagement Lead

**T: 0238 088 1892**

**E: [Greg.Rubins@bdo.co.uk](mailto:Greg.Rubins@bdo.co.uk)**