



PLYMOUTH CITY COUNCIL

PLANNING REPORT TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2017

Date of issue: 7 March 2017

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INTRODUCTION

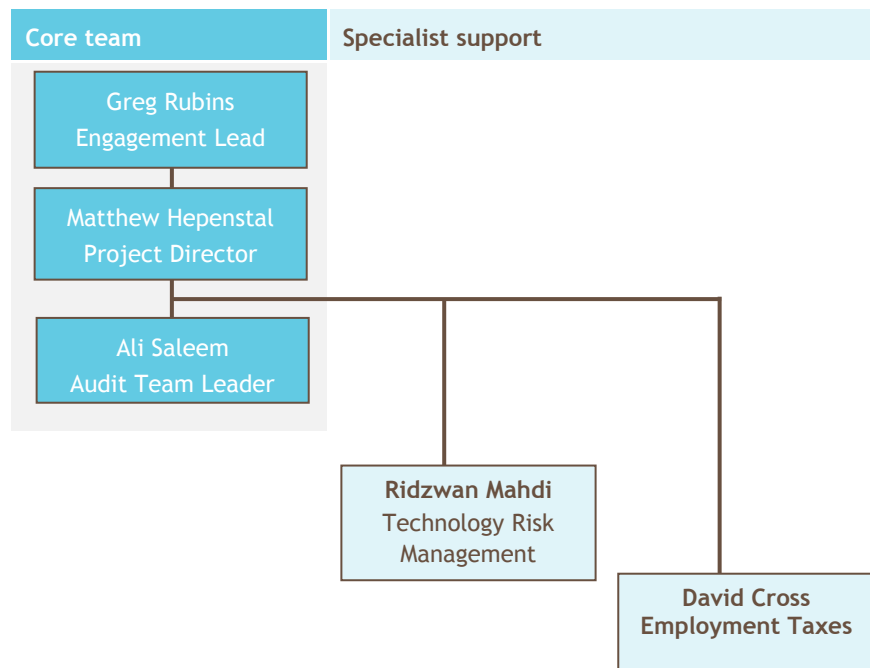
PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the Authority for the year ending 31 March 2017. 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. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Plymouth City Council Audit Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Greg Rubins Engagement Lead	Tel: 0238 088 1892 Greg.rubins@bdo.co.uk	Oversee the audit and sign the audit report
Matthew Hepenstal Project Director	Tel: 023 8088 1888 matthew.x.hepenstal@bdo.co.uk	Overall management of the audit and delivery of the use of resources work
Ali Saleem Audit Team Leader	Tel: 0117 930 1601 ali.saleem@bdo.co.uk	Day to day management and supervision of the audit of the financial statements
Ridzwan Mahdi Technology Risk Manager	Tel: 0758 318 9359 ridzwan.mahdi@bdo.co.uk	Manage IT review for audit purposes
David Cross Tax Manager	Tel: 0117 930 1517 David.cross@bdo.co.uk	Follow up of tax work performed in 2015/16

Greg Rubins is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

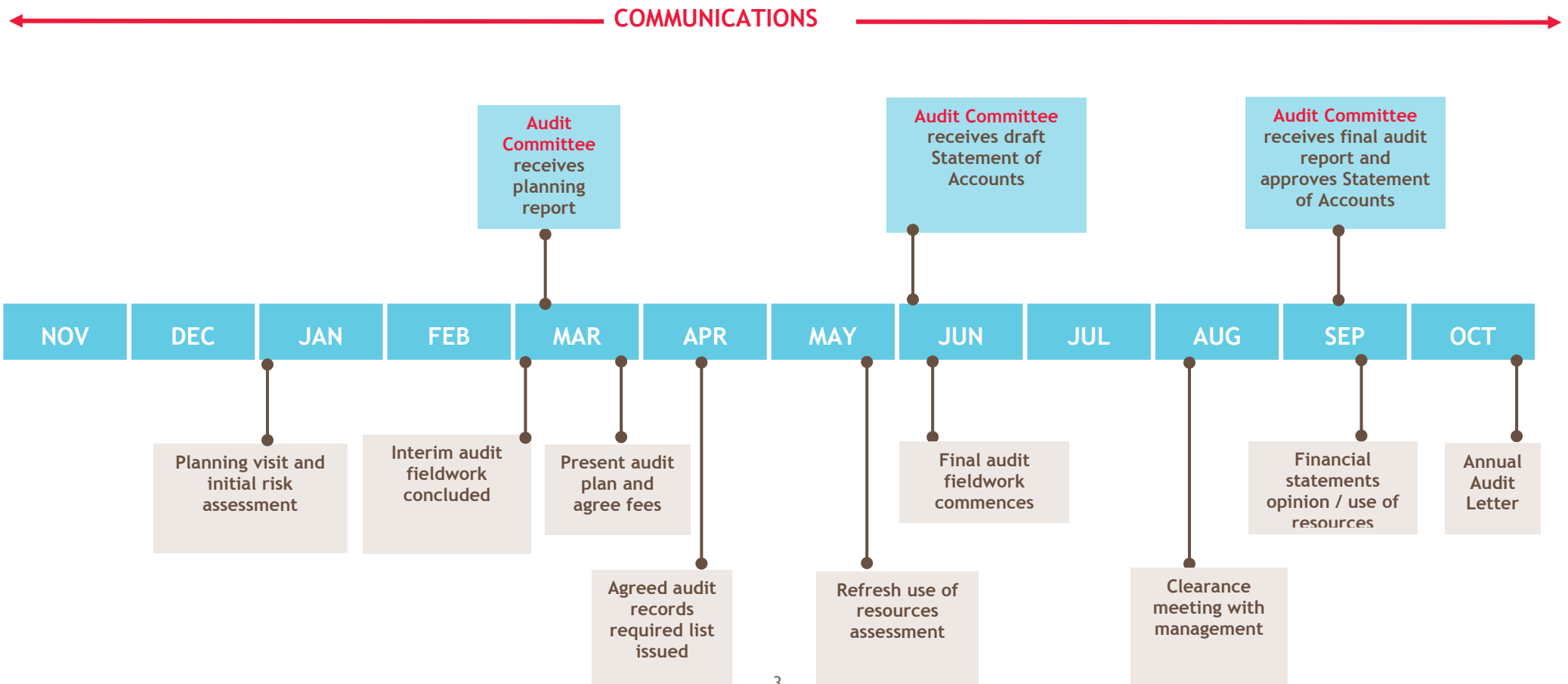
- the financial statements are free from material misstatement, whether due to fraud or error
- the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Greg Rubins is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest.
To make a written recommendation to the authority.

7 To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law.
To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Plymouth City Council	£9.3 million	£186,000

Please see Appendix I for detailed definitions of materiality and triviality.

Materiality for the Council has been based on 1.75% of forecast gross expenditure for 2016/17.

At this stage, the figure for materiality is based on the Council's forecast outturn gross expenditure based on the first nine months of 2016/17 and estimated at £531.6 million.

This will be reconsidered when the draft financial statements for the full year are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the authority's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the authority's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the authority's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to

the risk, especially those measurements involving a wide range of measurement uncertainty

- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on internal audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Significant estimates

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> Utilise our IT based journal testing software to identify any journal transactions that appear unusual in the context of the Council's operations and test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. 	Not applicable.
Revenue recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital grants where these are subject to performance conditions before these may be recognised as income in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the completeness and existence of certain types of fees and charges including income from Adult Social Care services provided by the Council.</p>	<p>We will test a sample of grants subject to performance conditions to confirm that the conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges and investment rental income to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p> <p>For each material source of income generated in 2016/17 we will compare against the prior year comparative and outturn and obtain explanations to confirm the outturn is in line with our understanding.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Property, plant and equipment valuations	<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.</p> <p>The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years. We found no issues with the valuation last year but this is a risk for all authorities due to the level of judgement involved.</p>	<p>We will review the instructions provided to the Council's valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will review the valuation performed and test a sample of assets to confirm the valuation has been correctly accounted for.</p> <p>We will also review the valuation of the Council's 50% share of the Tamar Bridge and assess the disclosures made by the Council in connection with the assets and liabilities of the Tamar Bridge and Tor Point Ferry operation that it jointly owns with Cornwall CC.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>
Changes in presentation of the financial statements	<p>The Code requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> • Change to the format of the Comprehensive Income and Expenditure Statement (CIES) • Change to the format of the Movement in Reserves Statement (MIRS) • New Expenditure and Funding Analysis (EFA) note • Change to the Segmental Reporting note • New Expenditure and Income analysis note. <p>These changes will require a restatement to the 2015/16 CIES. There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p> <p>We will review and test the restated prior year figures where there is a revised form of presentation.</p>	<p>Not applicable.</p>

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Consideration of related party transactions	<p>We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p>	<p>We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	<p>Review of the Council’s register of members interests for undisclosed interests.</p>
Highways Network Asset (HNA)	<p>It is possible that the Code may be revised and new rules covering the basis for calculating the balance sheet value of the highways network asset (HNA) introduced. These changes are potentially going to take effect from 1 April 2017.</p> <p>If this proposed change is approved, it will require the Council to calculate the value of its Highways assets including its roads, bridges, street furniture and traffic lights etc. on a “depreciated replacement cost” (DRC) rather than the currently used “depreciated historic cost” basis. This will represent a substantial task.</p>	<p>If the proposed change of moving to valuing the HNA on a DRC basis is approved, we will review the “Accounting Standards that have been issued but have not yet been adopted” disclosure and discuss with management the plan for implementing the changes.</p> <p>In the event that the Code is changed, we will also seek to agree early any technical aspects that emerge in connection with the HNA to help ensure that any changes are managed successfully.</p>	<p>CIPFA and NAO technical guidance.</p>
Pension liability assumptions	<p>The Council’s pension liability comprises the Council’s share of the market value of assets and liabilities held in the Devon Pension Fund.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the assets and liabilities.</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>We will contact the auditors of the Devon Pension Fund and request confirmation of the controls in place for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the NAO commissioned consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p> <p>Letter to BDO from the Devon Pension Fund auditor.</p>

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Group Accounts considerations	<p>The Council has a range of interests in various entities including DELT (a company the Council owns with NEW Devon CCG) and CaterEd, a company providing catering services to schools. These were not considered material last year and therefore group accounts were not necessary but this needs to be reviewed each year.</p>	<p>We will review the paper prepared by management and challenge the approach adopted by the Council to accounting for the entities within which the Council has an interest.</p>	<p>Draft accounts in connection with the entities within which the Council has an interest.</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. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled. Management use this information 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 for all authorities in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals. We are aware that some NHS organisations may appeal their business rate charge and seek charitable status to claim mandatory rate relief.</p>	<p>We will review the accuracy of the appeals data to confirm that it is complete based on the VAO list, and that settled appeals are removed.</p> <p>We will review the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.</p> <p>We will monitor progress with the potential rate relief claims from NHS organisations and the potential impact on the collection fund account.</p>	<p>We will compare the listing of current appeals to listings from the VOA.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Sustainable finances</p>	<p>In February 2016, the Council agreed a budget for 2016/17 comprising net spending (i.e. expenditure net of income) of £186.7 million for the year. At 31 December 2016, the Council was forecasting spending of approximately £188 million for 2016/17 and if this reflects the outturn, would result in a budget overspend of approximately £1.3 million.</p> <p>The Council's Medium Term Financial Strategy (MTFS) which was prepared in 2016 and covered the period to 31 March 2020 identified that financial resources will reduce in 2017/18 with further reductions in subsequent years.</p> <p>To illustrate, the MTFS identified a need to reduce costs by nearly £24 million in 2016/17 to achieve the £186.7 million budget for 2016/17. In future years, the MTFS identified a need for further reductions in net expenditure of £19.1 million in 2017/18 with lesser reductions in the two years to 31 March 2020. Delivering the savings in the early years of the MTFS will be very important in creating a financially sustainable Council and meeting the MTFS target.</p>	<p>We will review the assumptions used in the Medium Term Financial Strategy.</p> <p>We will monitor the delivery of the budgeted savings in 2016/17 and review the outline plans to achieve further savings in the period to 31 March 2020 and comment on their achievability.</p>	<p>Not applicable.</p>
<p>Partnership arrangements</p>	<p>The Council has a range of partnership arrangements in place including an "Integrated Fund" which is managed in partnership with NEW Devon CCG. This is a significant partnership involving total annual spending of more than £350 million in 2016/17. We reported last year that these arrangements were working well.</p> <p>The Council also works with several other entities including Cornwall CC in respect of Tamar Bridge as well as on other projects. As with any partnership arrangement, there are risks around governance and control.</p>	<p>We will update our knowledge of the Council's significant partnership arrangements and assess the governance arrangements in place.</p>	<p>Not applicable.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

On the following page, we have recorded details of any non-audit services and we anticipate needing to undertake specific procedures on the Council’s Housing Benefit Subsidy claim and the return to the Teachers Pensions’ Agency in respect of pension contributions. Should work in other areas be required, we will report this to the Audit Committee.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors 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 partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team.

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

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	£
Audit fee	136,874
Certification fee (Housing benefits subsidy)	13,290
Total audit and certification fees:	150,164
Fees for non audit services - audit related (see below)	4,600
Fees for non audit services - other (see below)	Nil
TOTAL FEES	154,664

NON AUDIT SERVICES FEES ANALYSIS

Audit related services:

Teachers Pensions certification fee	4,600
Total	4,600

Non audit services:

Not applicable	Nil
Total	Nil

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY


- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
 - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - We would request any misstatements identified during the audit process to be adjusted in a range of circumstances including:
 - Clear cut errors where correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION	
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
Greg Rubins - Engagement lead	2 nd
Russell Field - Engagement Quality Control Reviewer (EQCR)	1 st
Matthew Hepenstal - Project director	2 nd
Ali Saleem - Audit Team Leader	1 st



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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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