PLYMOUTH CITY COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017
14 September 2017

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and expect to sign our audit opinion by the statutory deadline of 30th September, subject to resolution of matters set out in the outstanding matters section below.
Audit risks	We issued our planning report to the Audit Committee in March 2017 and this document contained our initial assessment of the risks that were relevant to the audit. Subsequent to issuing the document we elevated the risks relating to valuation of property plant and equipment and also the valuation of the pension fund liability and reported these changes in our update report presented to the Audit Committee in June 2017.
Materiality	Our final materiality was calculated at £9.3 million and was calculated using the Council's gross expenditure for 2016/17.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified no material misstatements and we were pleased to note a significant improvement in the quality of the draft accounts and supporting working papers.
Adjusted misstatements	Our audit identified a small number of immaterial misstatements which management has amended in the final financial statements. A few other presentational changes have been made to the financial statements as a result of the audit. In particular, the Council needed to provide additional disclosure in respect of the valuation of the Tamar Bridge which is valued on a depreciated replacement cost (DRC) basis. The 2016/17 Code of Practice on local authority accounting ("the Code") stipulates that historic cost is to be used as the basis for valu ing highways infrastructure assets and therefore the Council, by using DRC departs from the Code requirement for this asset. Departure from the Code can be acceptable but it is necessary to provide the reader with additional information to explain the reason for the departure from the Code.
Unadjusted audit differences	Our audit identified three unadjusted audit differences and these are set out in more detail in Appendix I. We are satisfied that they are not systemic and in all cases have no impact upon the Council's General Fund balance.
Control environment	Our audit identified a small number recommendations designed to strengthen controls and these are set out in Appendix II.

SUMMARY

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable Finances	The Council has a transformation plan that is designed to deliver a reduction in net expenditure of nearly £24 million in 2016/17 with further reductions in future years. The reductions in net expenditure amount to £18.2 million in 2017/18 with further reductions of £9 million and £8 million in 2018/19 and 2019/2010. The overall gap in resources in the period to 2020 amounts to approximately £60 million and the Council has identified the need to address this gap with substantial savings sought in the two year period to 31 March 2018. In 2016/17, the Council was very close to achieving the level of savings required by its budget and fell short by approximately £1.3m funded from a transfer from reserves and application of capital receipts. Therefore given the very difficult challenge that the Council set itself in 2016/17, it is evident that the Council's arrangements in 2016/17 have been reasonable. At the same time the Council's useable reserves have increased from £51 million at the beginning of 2016/17 to £55 million at year end. However, as many of these reserves do have restricted use, they are of limited use in addressing the Council's budget gap in connection with its revenue expenditure. The position remains challenging in 2017/18 and the Council is already facing pressure around social care costs, in line with other principal Councils and national pressures such as the apprenticeship levy. The financial progress reports for quarter 1 of 2017/18 have been issued to Cabinet and they indicate an overspend against budget of approximately £4.25 million. Management is taking action to address this overspend in the remaining part of the year but there remains a risk of an overspend in 2017/18 and close monitoring will be required.
Partnerships	The Council is active in seeking to work with other organisations and has a number of partnership arrangements in place particularly with the NEW Devon CCG. No matters were raised during our work.

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 5, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017. This year we worked with the finance team to prepare for the faster close requirements that will be in place for the 2017/18 audit. As part of this process, we agreed to bring forward the audit work. We received the first draft of the accounts in early June and the working papers have been of high standard which has helped us to complete our audit procedures significantly earlier than was the case with our 2015/16 audit.
Annual governance statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing an unqualified opinion on the use of resources for the year ended 31 March 2017 and conclude that the Council did have proper arrangements in place as defined by the NAO guidance issued in November 2015.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the financial statements. We expect to issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Audit certificate	We will issue our audit certificate after we have completed our work on the financial statements, use of resources and whole of government accounts.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Audit Completion Report to the Audit Committee, which details 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 use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, 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 and throughout the period.

AUDIT QUALITY

BDO is committed to delivering 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 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.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources. The following matters are outstanding at the date of this report. We will update you on their current status at the Audit Committee meeting at which this report is considered:

1 Internal quality control review process

2 Finalised audited accounts for CaterEd and the Tamar Bridge and Tor Point Ferry Joint Committee

3 Subsequent events review

4 Final review and approval of the financial statements

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

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks as identified in our earlier Audit Planning document presented to the Audit Committee in March 2017. Minor changes were made to our risk assessment and these were communicated to the Audit Committee in June 2017.

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	Our response to this risk included: • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • reviewing accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Our audit work in relation to journals has not identified any significant issues. We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are included below. No unusual or transactions outside of the normal course of business were identified.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue recognition	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. Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.	In addressing this audit risk, we made use of our journal testing application to identify unusual transactions. We also tested a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement. We also obtained an understanding of the rationale for significant transactions that were outside the normal course of business for the Council or appeared to be unusual.	No issues noted.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Land, buildings, and investment property 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. The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years.	We reviewed the revaluation instructions issued and confirmed the valuer's qualifications and experience in order to determine whether we could rely on the management expert. We confirmed that the basis of valuation for assets valued in year were appropriate for the type of asset and how they were being used. We reviewed the valuation performed and tested a sample of assets to confirm the valuation has been correctly accounted for.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work. For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for. The Tamar Bridge has been valued on depreciated replacement cost (DRC) basis (most recent valuation was in 2015) and this valuation has been used to support the value of the bridge in the Council's accounts. The Code stipulates that historic cost (HC) (rather than DRC) is to form the basis of the valuation of highways related assets. The Council has identified DRC as the better basis of valuation of this asset because this information is more appropriate for the reader. This is partly because the depreciation charge being based on a current value rather than historic cost would be more appropriate in assessing the financial performance of this toll bridge where tolls are expected to enable the Council to recover its costs. To address the departure from the Code, the Council has provided additional disclosure as to why DRC is the appropriate basis and also confirmed that accurate historic cost information is not available.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Local Government Pension Fund assumptions	The Council's pension liability comprises the Council's share of the market value of assets held in the Devon Pension Fund less the estimated future liability to pay pensions. The pension fund liability is calculated by actuaries with specialist knowledge and experience. The calculation uses membership data held by the pension fund and uses factors such as mortality rates and expected future pay rises to calculate the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions.	We agreed the disclosures to the information provided by the pension fund actuary. We contacted the Devon Pension Fund auditor and request confirmation of the controls in place for providing accurate information to the actuary. We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We obtained a confirmation from the Devon Pension Fund auditor about aspects of the valuation of the pension fund assets and liabilities and agreed the disclosures to the report received from the actuary. The NAO commissioned PwC to review the assumptions used by Barnett Waddingham, the actuary for the Devon Pension Fund. PwC reported that certain assumptions used by Barnett Waddingham were out of line with their expected range. Specifically, PwC reported as follows: *"For employers advised by Barnett Waddingham, the discount rates proposed fall outside of our expected ranges as the methodology is not as robust as we would expect, particularly under market conditions at 31 March 2017."* To address this matter, we commissioned a specialist actuary, Broadstone, to undertake additional work to assess the potential impact upon the Council's accounts where the value of the liability at 31 March 2017 had been calculated at £1,017 million. The Broadstone review concluded that bringing the discount rate into line with general expectations (as well as adjusting the other assumptions appropriately) would not lead to materially different liability calculation as the impact of the higher discount rate and inflation rates counteracted each other and the overall liability calculation is reasonable. We have therefore been able to conclude that the amount is not materially misstated.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Changes in presentation of the financial statements	The 2016/17 Code required a change to the presentation of some areas of the financial statements. This includes: • 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. These changes required a restatement to the 2015/16 CIES.	We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements. We confirm that the analysis by service in the CIES is consistent with the internal reporting within the Council. We reviewed the restatement of the comparative 2015/16 information to ensure that this is presented consistently with the current year basis.	There were no issues identified in this element of our work.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Consideration of related party transactions	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.	We will discuss with management and review the Council's register of member's interests for undisclosed interests. This is something we will require you to include in your management representation letter to us	We did not identify any issues with this part of our audit.
7	Highways Network Asset (HNA)	When we issued our plan, the 2016/17 CIPFA Code of Practice on Local Authority Accounting was in the process of being updated to require local authorities to value highways network asset (HNA) on a depreciated replacement cost basis.	In November 2016, the plan to change the basis of calculating the HNA to depreciated replacement cost (DRC) was deferred beyond 2016/17. At the same time the basis of using historic cost to calculate the balance sheet value of highways assets (e.g. roads, bridges, traffic lights etc.) was confirmed.	The planned change to the Code and the move to DRC with effect from 1 April 2017 has been deferred. The decision to defer implementation of DRC impacted upon the valuation of the Tamar Bridge and this issue is considered in more detail within the valuation of Land and buildings valuations identified above.
8	Group Accounts considerations	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.	We reviewed 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.	Review of the draft accounts of DELT and CaterED indicate that the Council's decision to continue to prepare single entity accounts remains appropriate. This is because the adjustments that would be necessary are not material and therefore group accounts are not required.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	Non-domestic rates appeals provision	The Council is 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. 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.	We reviewed the accuracy of the appeals data to confirm that it is complete based on the VAO list, and that settled appeals are removed. We reviewed the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate. We will monitor progress with the potential rate relief claims from NHS organisations and the potential impact on the collection fund account.	No issues noted.

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
14	The draft financial statements, within the Statement of Accounts, were prepared and provided to us for audit in accordance with a pre-agreed timetable and shortly after the end of May. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	The deadline for the Council to approve place its draft accounts was 30 June 2017. In anticipation of the need to respond to the 2017/18 accounts deadline being moved forward to 31 May 2018, we have worked with management to bring forward aspects of the 2016/17 audit timetable forward so that we will be both be better prepared for the accelerated deadline that will apply in 2018. We agreed an outline plan with management where we were to be provided with the first draft of the accounts in early June and the working papers supporting the draft accounts were of a good standard enabling our audit fieldwork to begin as soon as the draft accounts were received. In addition, our “close meeting” with senior management occurred in August and was therefore ahead of schedule compared to the equivalent meeting in 2015/16.
15	We are required to review the draft Annual Governance Statement and 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.	We have no matters to report.
16	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.	We have no matters to report.

CONTROL ENVIRONMENT

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 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2016/17.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
17	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 Authority 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. 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.	Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. Our review of the Council's WGA Data Collection Tool (DCT) is in progress. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We expect to issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline.

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 (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 2016/17 Audit Plan that was presented to the Audit Committee in issued in March earlier this year. Subsequently, we performed a more detailed assessment and in June 2017 prepared an update report for the Audit Committee that set out the updated risk assessment.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	In February 2016, the Council agreed a budget for 2016/17 with 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 therefore an overspend against budget of approximately £1.3 million. In the later months of the year, the Council did manage to reduce this overspend by the application of reserves and use of capital receipts. 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. To illustrate, the MTFS identified a need to reduce net expenditure by £23.9 million in 2016/17 with further reductions amounting to £39 million in the period from 1 April, 2017 to 31 March 2020 (i.e. approximately £63 million in total). 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. In addressing this audit risk, we reviewed the assumptions used in the Medium Term Financial Strategy including the delivery of the budgeted savings in 2016/17. We also reviewed the outline plans to achieve further savings in the period to 31 March 2020 to help assess their achievability.	In ensuring a balanced budget, the Council identified a savings programme designed to reduce net spending by £23.9 million in 2016/17. To ensure a balanced budget at year end was achieved, £1 million was transferred from the Housing Stock Transfer Reserve and £350,000 of capital receipts were applied to the General Fund. At 31 March 2017 the General Fund balance was £9.35 million representing approximately 5% of the Council's annual net expenditure. The Council has identified further savings for 2017/18 which are factored into its budget and forecast to generate reductions in net expenditure with a value of £18.23 million. For each item an officer is accountable for delivering the saving and reporting progress to the Council's senior management group overseeing the transformation programme. In assessing the robustness of the arrangements for overseeing the reductions in net expenditure we reviewed the 2017/18 list of schemes and discussed with management the process for delivering the net expenditure reductions. We have concluded that the Council's approach has been reasonable and that the planned savings are the result of extensive work to ensure that they are realistic. We also note at quarter 1 (the period to 30 June 2017) the Council is behind with its planned level of savings and is forecasting an overspend against budget of approximately £4.3 million. It is therefore important that this position remains closely monitored. In comparison with other unitary authorities that we audit, the Council's useable reserves are at a reasonable level, although unlike many others, the Council was able to increase its useable balances to £55 million (up from £51 million at the start of the year). However, as many of these reserves do have restricted use, they are of limited use in addressing the Council's budget gap in connection with its revenue expenditure.

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Partnerships	The Council continues to work with external partners and works closely with several including NHS NEW Devon CCG. As with any partnership arrangements there are risks around governance and control and value for money.	The Council has a significant partnership with the NEW Devon CCG which is the subject of a section 75 agreement and referred to as the Plymouth Integrated Fund. The financial details of the partnership are routinely reported to Cabinet. The Council also works closely with the CCG via DELT (a joint venture company) which is subject to audit and with officer representation on the Company Board. The significance of councils working with other organisations is likely to continue and therefore the governance arrangements for individual partnerships need to be kept under review. At this stage, however, the Council’s arrangements covering its significant partnerships are reasonable and the Council’s arrangements have been cited as best practice and nominated for a Public Finance award.

APPENDICES

APPENDIX I: 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, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit did not identify any material misstatements.

UNADJUSTED AUDIT DIFFERENCES

There are three unadjusted audit differences identified by our audit work which would if corrected would not affect the Council's General Fund balance and would affect the balance sheet only.

You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

We agree with this judgement although we also request that you correct them even though not material.

APPENDIX I: AUDIT DIFFERENCES

	INCOME AND EXPENDITURE		BALANCE SHEET	
	DR £'000	CR £'000	DR £'000	CR £'000
1. Omission of investment property from the Council's 2017 balance sheet				
DR Investment Properties			333	
CR Unusable Reserves				333
2. Reclassification of Plympton Guildhall as other land and buildings rather than as a heritage asset				
DR Other land and buildings			718	
CR Heritage Assets				718
3. Release of revaluation reserve in connection with a 2016/17 asset disposal				
DR Revaluation Reserve			542	
CR Unusable Reserves				542
TOTAL UNADJUSTED AUDIT DIFFERENCES			1,593	1,593

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: Significant deficiency in internal control; Other deficiency in internal control; Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
For Civica financials, we noted a relatively high number of generic accounts and also "administrator" access being given to a relatively high number of people.	Potential weakness in control over access.	Management should review the number of generic accounts and also those individuals allocated administrator access.	From 750 users who can access the system we have five full access users which is not considered excessive.	N/A	N/A
For Civica, the password parameters were fewer than we would expect	Weakened access controls.	Review password parameters.	We will amend the settings for the length of password and get this implemented by Delt.	Carolyn Haynes	30 Sept 2017
Starters and leavers controls need to be formalised for Logotech	Weakened access controls.	Formalise leaver procedures.	There are only 5 users for this database and they have been with the Council for a number of years.	N/A	N/A
For Techforge, change management procedures should be reviewed to ensure an audit trail exists for all approved changes.	The controls to prevent unauthorised changes to the application need to be strengthened.	Formalise change procedures and ensure all changes can be checked against an authorised approval.	We will work with Delt to deliver improvements	Delt	31 Dec 2017
For Carefirst, the password complexity was weak.	Weakened access controls	Ensure passwords are more complex.	We will work with Delt to deliver improvements	Delt	31 Dec 2017
For Itrent and Techforge, we note that lock-out only occurred after 30 failed attempts. This is a high number and should be reduced.	Weakened access controls	Reduce the number of failed password inputs before lock out occurs.	We will work with Delt to deliver improvements	Delt	31 Dec 2017

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL £000	PLANNING £000
Materiality	£10,163,000	£9,300,000
Clearly trivial threshold	£203,000	£186,000

We revised our materiality to reflect the Council's final reported expenditure.

APPENDIX IV: INDEPENDENCE

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 lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively. No member of your audit team has worked on this audit for more than two years.

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

INDEPENDENCE – THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

In addition to our work under the PSAA contract and which covers the statutory audit work and the certification of the Council's Benefits return, other work relates to the certification of grant claims. Details of the fees are set out in Appendix V.

We have not identified any potential threats to our independence as auditors.

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

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	136,874	136,874	171,704	
Housing benefits subsidy claim	Tbc	Tbc	17,477	Errors identified in our initial phase of sample tests requiring additional items to be selected and tested
TOTAL AUDIT AND CERTIFICATION FEES	tbc	tbc	189,181	
Reporting on government grants:				
• Teachers' Pension return	4,600	4,600	4,500	
• Other	-	Nil	Nil	
NON-AUDIT ASSURANCE SERVICES	4,600	4,600	4,500	
TOTAL ASSURANCE SERVICES	tbc	tbc	193,681	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP

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...... September 2017

Dear Sirs

Financial statements of Plymouth City Council for the year ended 31 March 2017

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 2017 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 Director of Finance 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 2017 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.

APPENDIX VI: DRAFT REPRESENTATION LETTER

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 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 have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

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 and member 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

[date]

[Name]

[Title]

Signed on behalf of the <Audit Committee>

[date]

FOR MORE INFORMATION

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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.

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