



PLYMOUTH CITY COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

24 July 2018

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WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Governance Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Governance Committee. At the completion stage of the audit it is essential that we engage with the Audit and Governance Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Governance Committee meeting on 30 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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. This report has been prepared solely for the use of the Audit and Governance Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities, please see the Appendices.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Governance Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES

Audit status	We are in the process of completing our audit procedures in accordance with the planned scope. Subject to resolution of matters set out in the outstanding matters section below, our objectives have been achieved.
Audit risks update	<p>Since our initial Audit Planning Report was issued to you on 06 March 2018, the following significant risks have been identified:</p> <ul style="list-style-type: none"> • Existence of debtors - Given the draft financial statements presented an increase in short term debtors of c.£18.5 million compared to the prior year, which was not in line with our expectations, we have concluded there is a significant risk in respect of the existence of debtors. We have responded to this risk by substantively testing an increased sample of debtors. • Existence of accruals - Given the draft financial statements presented an increase in short term creditors of c.£26.2 million compared to the prior year, which was not in line with our expectations, we have concluded there is a significant risk in respect of the existence of accruals. We have responded to this risk by substantively testing an increased sample of short term creditors. This has led to the identification of a material adjustment in this area. <p>Revenue Recognition: We also amended our classification of the audit risk in respect of revenue recognition after receiving the draft financial statements. Our updated risk assessment concluded that whilst there was a risk of material misstatement in respect of fees and charges and other service income, this risk was no longer considered to be significant. The previously reported significant risk of material misstatement in respect of grant income where performance conditions exist remained unchanged.</p>
Materiality	Our final materiality is £10.1 million. We have reduced our materiality from £11.2 million to £10.1 million as a result of using actual expenditure for 2017/18 and setting the percentage at 1.70% rather than 1.75%. This was due in part to our materiality in the context of the identification of prior year errors set out below.
Changes to audit approach	There were no other significant changes to our planned audit approach nor were any restrictions placed on our audit.

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS CONTINUED

Unadjusted audit differences	<p>To date, our audit has identified three audit differences that you are not proposing to adjust. These are:</p> <ul style="list-style-type: none">• Overstatement of long term investments of £249k• Understatement of creditors as a result of netting off debit balances £949k• Understatement of investment properties of £254k <p>If corrected, these would increase the Council's net assets by £5k.</p>
Material misstatements	<p>Our audit identified one material misstatement in respect of the classification of £54.8 million of grants received in advance. In the draft financial statements these were all erroneously recognised as short-term liabilities, when they should be split between short and long term. This matter also resulted in a prior year adjustment of £39.6 million for the same reason.</p>
Control environment	<p>Our audit did not identify any significant deficiencies in internal controls.</p>

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

Sustainable resources	<p>Our work in this area is being finalised at the time of writing and our conclusion not yet drawn. We will update the Audit and Governance Committee at the July meeting.</p>
Partnership arrangements	<p>Our work in this area is being finalised at the time of writing and our conclusion not yet drawn. We will update the Audit and Governance Committee at the July meeting.</p>

AUDIT OPINION

Financial statements	<p>Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.</p>
Other information	<p>Subject to the successful resolution of outstanding matters set out on page 6, we propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.</p>
Annual Governance Statement	<p>We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.</p>
Use of resources	<p>Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.</p>

OVERVIEW

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE 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 plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 statutory deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix III.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix V.

OUTSTANDING MATTERS

We have largely completed our audit work for the year ended 31 March 2018, and anticipate issuing an unmodified opinion on the financial statements.

The following matters are outstanding at the date of this report. We anticipate the majority of these matters will have been cleared by the time of the Audit and Governance Committee and will update you on their current status at that meeting:

1 Clearance of outstanding issues on the audit queries tracker currently with management

Completion of residual testing in the following areas:

- Housing benefit expenditure
- Property, plant and equipment (pending receipt of outstanding information from 1 above)
- Income (pending receipt of outstanding information from 1 above)
- Expenditure (pending receipt of outstanding information from 1 above)

- ## 2
- Payroll (pending receipt of outstanding information from 1 above)
 - Debtors (additional sampling due to increased risk level)
 - Accruals (additional sampling due to increased risk level)
 - Journals (final journals to be selected for testing)
 - Pension (review of assurances provided by pension scheme auditor)
 - Financial statements (disclosure notes, Cashflow statement and other information)
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3 Receipt of an outstanding bank confirmation letter from the Co-Op

4 Final review by the project manager and partner, and clearance of review points

5 Final review and approval by you of the Statement of Accounts

6 Quality and technical clearance

7 Subsequent events review

8 Management letter of representation, as attached in Appendix V to be approved and signed

9 Use of Resources - pending receipt of monitoring reports in relation to the savings achieved by the schemes included in the transformation scheme sample.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

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	<p>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.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We have:</p> <ul style="list-style-type: none"> Used our journal testing software to identify any journal transactions that appear unusual in the context of the Council's operations; Tested the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud; and Obtained an understanding of the rationale for significant transactions that appear to be unusual. 	<ul style="list-style-type: none"> Although our work in this area is still ongoing, we have not identified any inappropriate journals in our testing so far. Key accounting estimates are still under review, including the assumptions used in the valuation of property, plant and equipment and investment properties. Our work to date has not identified any significant transactions that are outside the normal course of business. <p>We will give a verbal update to the Audit and Governance Committee on the final results of our work at the July meeting.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>2</p> <p>Revenue recognition</p>	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p>	<p>We tested an increased sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p>	<p>Our work in this area is not yet complete, as we have some outstanding queries with the Council. However, our testing has not identified any issue with our sample of fees and charges so far.</p> <p>Our testing of grants received in advance is still underway.</p> <p>In preparing the statement of accounts, the Council concluded that £7.1 million of grants received in advance in the prior year had been incorrectly recognised as income before the performance conditions had been met. Although this is not above the audit materiality level, management consider this significant enough to warrant amendment and have processed a prior year adjustment to reduce income and reserves by £7.1 million.</p>

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Land, buildings, dwellings and investment property valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and its investment properties are not materially different to the fair value at the balance sheet date.</p> <p>For PPE, 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>For investment properties, the Council is required to value its properties on an annual basis.</p> <p>The significant risk relates to valuation only, as this is the area involving significant levels of judgement.</p>	<p>We reviewed the instructions provided to the Council's valuer and considered the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We tested a sample of assets to confirm the valuation has been correctly accounted for and that the assumptions appear reasonable.</p> <p>We also considered the assets that have not been revalued and assessed for the possibility of significant changes in value since the most recent valuation.</p> <p>We reviewed the valuation of the Council's 50% share of the Tamar Toll Bridge and assess the disclosures made by the Council in connection with the assets and liabilities of the Tamar Bridge and Torpoint Ferry operation that it jointly owns with Cornwall Council. This included an assessment of whether there may have been material movements in valuation since the last formal valuation.</p>	<p>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.</p> <p>For the sample of revalued PPE assets and investment properties tested, we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for.</p> <p>Our audit identified that there were errors on the fair value of three investment properties. The net impact of these errors was an understatement of the fair value of investment properties of £254k. This has been reported as an unadjusted audit difference. Our testing of asset valuations is not yet complete, in particular:</p> <ul style="list-style-type: none"> work is still ongoing over the carrying value of assets not subject to formal revaluation in year, as well as well as the consideration of movements on assets since their last formal revaluation for the Tamar Toll Bridge valuation we have requested the report from Cornwall Council's valuations team querying why there is no material movement on the valuation. The relevant valuation information was received today and our audit procedures need to be completed. <p>We will update the Audit and Governance Committee at the July meeting.</p>

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Short term debtors existence (New Significant Risk)	<p>Our preliminary analytical review procedures on the draft financial statements identified that the value of short term debtors had increased materially when compared to the prior year, which was not in line with our expectations.</p> <p>We consider there to be a significant risk of material misstatement relating to the existence of short term debtors.</p>	<p>We tested an increased sample of short term debtors to ensure they are valid.</p>	<p>Work in this area is still ongoing although we have identified no issues so far. We will provide a verbal update to the Audit and Governance Committee at the July meeting.</p>
5	Short term creditors existence (New Significant Risk)	<p>Our preliminary analytical review procedures on the draft financial statements identified that the value of short term creditors had increased materially when compared to the prior year, which was not in line with our expectations.</p> <p>We consider there to be a significant risk of material misstatement relating to the existence of short term creditors.</p>	<p>We tested an increased sample of short term creditors to ensure they are valid.</p>	<p>Work in this area is still ongoing although we have identified no issues so far. . We will provide a verbal update to the Audit and Governance Committee at the July meeting.</p>

KEY AUDIT AND ACCOUNTING MATTERS

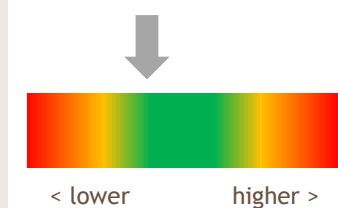
AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>6</p> <p>Pension liability assumptions</p>	<p>The pension liability comprises the Council's share of the market value of assets held in the Devon Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<ul style="list-style-type: none"> • We agreed the disclosures to the information provided by the pension fund actuary. • We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. • We checked whether any significant changes in membership data were communicated to the actuary. • We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. 	<ul style="list-style-type: none"> • We did not identify any issues regarding the accuracy of the disclosures in the financial statements. • At the time of writing, we are still awaiting the results of the work performed by the auditors of the pension scheme. • Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page. <p>During the financial statements preparation process the pension fund actuary notified the Council of two potential errors in the pension fund liability recorded in 2016/17. In response, the Council has included a prior year adjustment in respect of the pension liability to correct omission in the prior year of liabilities for employees who transferred from the Council to DELT and Livewell Southwest. We are currently finalising our technical review of this issue and we will update the Audit and Governance Committee at the meeting.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT			IMPACT
<p>The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows</p>	The actuary has used the following assumptions to value to future pension liability:			
		Actual used	Actuary range	PwC assessment of the actuary range to market expectations
	RPI increase	3.3%	3.3-3.35%	Top of expected range (as no deduction for inflation risk premium) but reasonable
	CPI increase	2.3%	2.3-2.35%	Top of expected range (derived from RPI above) but reasonable
	Salary increase	3.8%	--	Top of expected range (derived from RPI above) but reasonable
	Pension increase	2.3%	2.3-2.35%	Top of expected range (derived from RPI above) but reasonable
	Discount rate	2.55%	2.5-2.6%	Reasonable
	Mortality - LGPS:			
	- Male current	25.7 years	23.7-26.8	Reasonable
	- Female current	27.9 years	26.6-28.4	Reasonable
	- Male retired	23.5 years	21.5-24.5	Reasonable
	- Female retired	25.6 years	24.3-26.1	Reasonable
	- Commutation	50%	50%	Reasonable
	Overall impact of assumptions			
	PwC concluded that overall the methodologies used by Barnet Waddingham to establish the assumptions used to calculate the pension liability are reasonable.			
Conclusion				
We are satisfied that the assumptions used by the Council are consistent with the ranges proposed by the actuary and that the ranges proposed by the actuary are consistent with market expectations.				



KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5 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 have reviewed the paper prepared by management and challenged 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, on the basis that its interests in other entities is not material, remains appropriate.
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 reviewed the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions. We discussed declarations with management to establish whether there were any potential related party transactions which had not been disclosed.	No issues have been identified. We request a representation from you regarding the completeness of related party transactions and have included this in the draft Letter of Representation at Appendix V.
7 Non-domestic rates appeals provision	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. 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 reviewed the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed. We reviewed and test the assumptions used in the preparation of the provision estimate.	The Council has increased its provision for NDR appeals from £2.1 million to £8.1 million. The Council recognises 49% (£4 million) of this provision on its own balance sheet. The increase was primarily due to two large appeals being settled close to the year end. Our testing did not identify any issues with this provision.

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
1	Prior year adjustment - Pension liability	<p>As part of the year- end close process, the actuary has identified that certain pensions liabilities in respect of the Council's former employees, who had subsequently transferred to DELT and Livewell South West, had previously been omitted from the actuarial valuation. These liabilities have been included in the valuation this year and the actuary has provided a new valuation as at the 31 March 2017.</p> <p>As a result, the prior year pension liability has increased by £15 million in the draft statement of accounts. We are currently finalising our technical review of this issue.</p>
2	Prior year adjustment - Grants received in advance	<p>As part of the year-end close process the Council have concluded that a number of grants received in advance, totalling £7.1 million, were recorded as income in 2016/17 when they should not have been because the conditions attached to the grant had not been met. Management restated the prior year figures in the draft financial statements to include a correcting adjustment. The impact has been to reduce income by £7.1 million and increase liabilities by £7.1 million. This adjustment is not required by accounting standards as it is not material but management consider that it is significant enough to warrant amendment.</p> <p>Having treated this as a prior year adjustment, additional disclosures are required in the accounts to fully explain the changes to the reader.</p>
3	Prior year adjustment - classification of grants between short-term and long-term	<p>During our audit we identified that grants received in advance were all recorded as short term creditors when some of the liabilities are long term. As a result these were a prior year adjustment has been made to correct this. The impact on last year's balance sheet was to move £39.6 million of grants from short-term liabilities to long term liabilities.</p> <p>Additional disclosures are required in the accounts to explain this adjustment.</p>

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 06 March 2018.

OTHER REPORTING MATTERS

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

MATTER	COMMENT
1	<p>We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.</p> <p>The following our initial review of draft financial statements, we noted some inconsistencies in the narrative report, these included:</p> <ul style="list-style-type: none">• Cash and short term holdings disclosed did not agree to the balance sheet;• The net revenue table did not tie back to the Comprehensive Income and Expenditure Account or the Expenditure Funding Analysis note (this has been included as an unadjusted misstatement) <p>Management have agreed to amend the first point and we are discussing the impact of the second point. We will provide an update to the committee at the meeting.</p>
2	<p>We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.</p> <p>We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance.</p>

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 the Audit and Governance Committee.

As the purpose of the audit is for us to express an opinion on the Council's 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. 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 2017/18.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
1	<p>For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 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.</p>

<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council met this deadline.</p> <p>We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.</p> <p>We will issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 statutory deadline.</p>

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) and report to you on an 'except for' basis. 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 2017/18 Audit Planning Report issued on 6 March 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements and we have not included any additional significant risks.

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 ■ Other issue

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>1 Sustainable resource deployment (SR)</p>	<p>In our audit plan, we identified sustainable finances as a significant risk area.</p> <p>In January 2018, the Council updated its Medium Term Financial Strategy (MTFS) covering the period to 31 March 2020.</p> <p>The Council has identified cost pressures in many areas and further reductions in Revenue Support Grant (RSG) are scheduled. To illustrate, RSG will amount to £16.3 million in 2018/19 with a further reduction to £9.5 million in 2019/20 (in 2017/18 RSG amounted to £23.1 million).</p> <p>To illustrate, the MTFS identified that in 2017/18 the Council needed to reduce net expenditure by £21.5 million to achieve the budgeted net expenditure for the year and the Council is currently reporting reasonable progress against this target. In future years, the MTFS identified a need for further reductions in net expenditure of £9.3 million in 2018/19 and £8.3 million in 2019/20.</p> <p>In addressing this risk in 2017/18, we looked at the assumptions underlying the current MTFS; looked at arrangements in place for monitoring and reporting the savings achieved against those forecast in the savings plan; and looked at the process for initiating, approving, implementing and monitoring transformation schemes achieving savings.</p>	<p>Our work in this area is largely complete, but we have some outstanding queries with management in relation to the monitoring of the current savings plans and the identification of savings schemes going forward.</p> <p>The Council's outturn position for 2017/18 was a small overspend of £2.411m (1.3% of its net budget and 0.5% of gross expenditure), which was addressed by utilising reserves and other funds held on the Council's balance sheet. £1.085m of capital receipts were applied to write down MRP. Within this, the Council realised savings of £18.3m (95%) of its £19.3m target. The Council maintained its working balance of 5% of its net revenue budget £9.1m.</p> <p>The Council has been undergoing a transformation process over the past 4-5 years, which is continuing. The savings projected to be delivered by this process are key to achieving a balanced budget in the MTFS going forward. £10.5m of the 2017/18 £18.3m savings achieved were delivered through the Council's transformation schemes.</p> <p>The latest MTFS, published in November 2017, shows total savings requirements and budgets gaps (unidentified element of the total savings requirement at that time) of:</p> <ul style="list-style-type: none"> • 2018/19 £12.3m savings requirement, £4.8m budget gap • 2019/20 £14.7m savings requirement, £6.3m budget gap • 2020/21 £9.6m savings requirement, £10.3m budget gap. <p>We have reviewed the assumptions underpinning the MTFS and conclude them to be reasonable.</p> <p>To further enhance its arrangements, a working group (the Project 151 group) was set up in early 2018 to look at the budget for 2018/19 and beyond, including looking at the major assumptions in the previous budget; looking at and challenging the major assumptions in the 2017/18 MTFS; reviewing the achievement of savings against those forecast for each transformation scheme; and identifying areas where further savings could be achieved, in time for the publication of the next MTFS in autumn 2018.</p> <p>This group has been focussing on identifying new savings to close the budget gaps set out above for the future MTFS periods. We are in the process of verifying the impact of these arrangements.</p>

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>Sustainable resource deployment (continued)</p>		<p>No significant issues have arisen from our work to date. The Council has a track record of delivering against its budget primarily through achievement of its savings plans. Whilst the Council, along with its peers, will face ongoing financial pressures, the levels of savings required in the medium term are lower than those achieved in 2017/18. Furthermore, the Council has sufficient resource resilience to address potential shortfalls should the budget gaps not be fully closed.</p> <p>Subject to the successful resolution of some residual queries and provision of some supporting documentation requested from management on savings identification, monitoring and reporting arrangements, we anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness. We will provide an update to the Audit and Governance Committee at the July meeting.</p>

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>2 Partnership arrangements (NR)</p>	<p>In our audit plan, we identified partnership arrangements as a normal risk area.</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 and evolving partnership involving total annual spending of more than £350 million. We have reported positively in previous years on the Council’s partnership arrangements.</p> <p>The Council also works with several other entities including Cornwall CC in respect of Tamar Bridge as well as on other projects.</p> <p>As with any partnership arrangement, there are risks around governance and control.</p> <p>To assess the arrangements in 2017/18, we updated our understanding of the governance arrangements in place for the Council’s existing significant arrangements and reviewed the minutes of key management and governance meetings in respect of these entities.</p>	<p>The governance arrangements have not changed for the Council’s significant partnerships and third party arrangements, including the Integrated Fund with NEW Devon CCG, DELT, CATERed and the South West Devon Waste Partnership.</p> <p>The Council has developed good working relationships over the years, particularly with the CCG in relation to the Integrated Fund.</p> <p>The significance of these relationships is likely to continue and the governance arrangements for individual partnerships need to be kept under review.</p> <p>At this stage, however, the Council’s arrangements covering its significant partnerships are reasonable and adequate.</p>

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 and Governance 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 has identified one material misstatement which management has agreed to amend in the final financial statements:

- £54.8 million of grant creditors classified as short-term creditors, were reclassified to long-term creditors. There was no impact on the provision of service cost or net assets.

UNADJUSTED AUDIT DIFFERENCES

Our audit identified three unadjusted audit difference this year, which would have no impact on the provision of service, if corrected. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement, although we also request that you correct the current year audit difference even though not material.

APPENDIX I: AUDIT DIFFERENCES

	£'000	INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR £'000	CR £'000	DR £'000	CR £'000
Net operating expenditure for the year before adjustments	225,093				
Dr Useable Reserves				249	
Cr Investments					(249)
(1) Within investments, a balance did not agree to the bank letter provided. This is in relation to CCLA diversified investment. When discussed with the Treasury team, they confirmed they agreed with the balance on the bank letter.					
Dr Other debtors				949	
Cr Trade creditors					(949)
(2) Reclassification of debit balances within trade creditors listing to other debtors.					
Dr Investment properties				254	
Cr Revaluation reserve					(254)
(3) Due to input errors to the investment properties schedule which was used to draft the financial statements					
TOTAL UNADJUSTED AUDIT DIFFERENCES	0			1,452	(1,452)
Surplus / deficit on provision of services if adjustments accounted for	225,093				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £000s	HRA BALANCE £000s
Balances before adjustments	9,168	N/A
Adjustments to CIES above	0	N/A
Adjustments via movement in Reserves Statement	0	N/A
BALANCES AFTER ADJUSTMENTS	9,168	

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- We noted that the Council has not included a reconciliation of the budget figures presented in the Narrative report to either the Comprehensive Income and Expenditure Statement or to the Expenditure Funding Analysis note. As a result the budget figures in the Narrative report cannot be reconciled to the financial accounts. This provides less meaningful information to the users of the accounts.

APPENDIX II: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Materiality	10,100,000	11,200,000
Pension fund overall materiality	N/A	N/A
Fund account specific materiality	N/A	N/A
Clearly trivial threshold	202,000	220,000

Planning materiality of £11,200,000 was based on 1.75% of 2016/17 actual gross expenditure.

We revised our planning materiality to 1.7% of 2017/18 actual gross expenditure reported in the draft financial statements.

APPENDIX III: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, to be provided by us to the Council in respect of the year ending 31 March 2018 are set out in Appendix IV. We understand that the provision of these services will be approved by the Audit and Governance Committee in advance in accordance with the Council's policy on this matter.

Since issuing our Audit Planning Report to you on 6 March 2018 there has been some changes to the senior members of the audit team. The Engagement Lead has changed from Greg Rubins to Lisa Clampin and the Project Director from Matthew Hepenstal to Donald Plane. The change of Engagement Lead was agreed with Public Sector Audit Appointments Limited and reported to the Audit and Governance Committee at its May 2018 meeting.

We confirm that we have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

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

APPENDIX IV: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016/17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	136,874	136,874	136,874	N/A
Fee for reporting on the housing benefits subsidy claim	17,477	17,477	17,477	N/A
TOTAL AUDIT AND CERTIFICATION FEES	154,351	154,351	154,351	
Fees for audit related services (reporting on other government grants):				N/A
• Teachers' pension return	4,800	4,800	4,600	N/A
Fees for other non-audit services	-	-	-	N/A
NON-AUDIT SERVICES	4,800	4,800	-	
TOTAL ASSURANCE SERVICES	159,151	159,151	158,951	

APPENDIX V: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

30 July 2018

Dear Sirs

Financial statements of Plymouth City Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2018 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 Interim Strategic Director, Transformation and Change 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 Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 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).

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.

APPENDIX V: DRAFT LETTER OF REPRESENTATION

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 generally accepted accounting principles and preventing and detecting fraud and error.

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

To the best of our knowledge we are not aware of any fraud or suspected fraud involving 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.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We note the unadjusted items you identified. We consider the potential and actual differences to be immaterial in the context of the financial statements taken as a whole.

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 confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

(a) Pension fund

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (RPI): 3.3%
- Rate of increase in salaries: 3.8%
- Rate of increase in pensions: 2.3%
- Rate of discounting scheme liabilities: 2.55%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Valuation of other land and buildings and investment properties

We are satisfied that the useful economic lives of the other land and buildings, and their constituent components, used in the valuation of the other land and buildings, and the calculation of the depreciation charge for the year, are reasonable. We confirm that the valuations, including desktop valuations, applied in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and are not materially misstated at year end. In particular, we are satisfied that:

- Specialised operational land and buildings where there is no market based evidence of current value are based on rebuild index prices
- Non-specialised operational land and buildings are based on existing use prices.

We are satisfied that investment properties have been appropriately valued at fair value, based on highest and best use.

APPENDIX V: DRAFT LETTER OF REPRESENTATION

(c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax receivables, business rates receivables and housing benefit overpayments are reasonable, based on write-off rates or collection rate data.

(d) NDR Provision

We are satisfied that the provision for NDR is reasonable.

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 or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Andrew Hardingham

Interim Strategic Director Transformation and Change

30 July 2018

Councillor Kate Taylor

Audit and Governance Committee Chair

Signed on behalf of the Audit and Governance Committee

30 July 2018

APPENDIX VI: AUDIT QUALITY

BDO is totally committed to audit quality

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

BDO welcomes feedback from external bodies and is committed to implementing all 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 companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a 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 Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

Lisa Clampin
Engagement lead

T: +44 (0)1473 320716
M: +44 (0)7791 397160
E: lisa.clampin@bdo.co.uk

Chris Wlaznik
Manager

T: +44 (0)117 9306728
M: +44 (0)7970 115223
E: chris.wlaznik@bdo.co.uk

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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