PLYMOUTH CITY COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

17 September 2018

CONTENTS

WELCOME

We have pleasure in presenting our updated 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.

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 completed our audit procedures in accordance with the planned scope and our objectives have been achieved.
Audit risks update	Since our Audit Planning Report was issued to you on 06 March 2018, the following significant risks have been identified: • 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 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 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. 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.
Materiality	Our final materiality was £10.1 million. We 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 re-consideration of 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	Our audit identified five audit differences that you proposed not to adjust. These are: • Overstatement of long term investments of £249k • Understatement of the value of other land and buildings of £1,390k (judgemental) • Understatement of the value of the Tamar Bridge of £1,434k (judgemental) • Understatement of the Council's share of pensions assets of £7,107k (judgemental) • Understatement of accruals of £253k If corrected, these would reduce the Council deficit on provision of service by £2,571k.
Material misstatements	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 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.
Prior year adjustments	In preparing the financial statements, the Council identified £8.8 million of grants received in advance, which had been incorrectly recognised in income in the prior year. Although this is not considered quantitatively material, the Council have made an adjustment for this on the basis that they consider it to be qualitatively material. The Council were notified by their actuaries that pensions liabilities relating to DELT and Livewell Southwest were not previously included in the financial statements. This has resulted in a prior year adjustment to recognise an additional £15 million liability in the prior year.
Control environment	Our audit did not identify any significant deficiencies in internal controls.
KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable resources	The Council's outturn position for 2017/18 was a small overspend of £2.411m, which was addressed by utilising reserves and other funds held on the Council's balance sheet. The Council has been undergoing a transformation process over recent years and the savings projected to be delivered by this process are key to achieving a balanced budget in the MTFS going forward. Whilst the Council 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 a track record of delivering against its budget and has sufficient resource resilience to address potential shortfalls should the budget gaps not be fully closed. We have issued an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in this area.
Partnership arrangements	The Council has developed good working relationships with its partners over the years. The significance of these relationships is likely to continue to grow, but the Council's current arrangements around these relationships are reasonable and adequate

OVERVIEW

AUDIT OPINION	
Financial statements	We issued an unmodified opinion on 13 August 2018.
Other information	We issued an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge on 13 August 2018.
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 issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 13 August 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND GOVERNANCE COMMITTEE	
Whole of Government Accounts (WGA)	Work on the WGA Data Collection Tool (DCT) is currently underway and we will update the Audit and Governance Committee on progress at its next meeting.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix III.
Audit Closure Certificate	We issued our audit closure certificate on 13 August 2018

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	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.	We: • 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.	• We did not identified any inappropriate journals in our testing. • Key accounting estimates were reviewed, including the assumptions used in the valuation of property, plant and equipment and investment properties. Our findings on these assumptions can be found on page 11. Our findings on the pension liability assumptions can be found on page 13. Other accounting estimates were considered appropriate. • Our work did not identify any significant transactions that were outside the normal course of business.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue recognition	Under auditing Standards there is a presumption that income recognition presents a fraud risk. 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).	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.	Our testing of grants subject to performance conditions did not identify any issues with income recognised in the current year. In preparing the statement of accounts, the Council concluded that £8.8 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 £8.8 million.

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	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. 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. For investment properties, the Council is required to value its properties on an annual basis. The significant risk relates to valuation only, as this is the area involving significant levels of judgement.	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. We tested a sample of assets to confirm the valuation has been correctly accounted for and that the assumptions appear reasonable. 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. 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.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we were satisfied that they were appropriate. We were also satisfied that the valuer had the appropriate skills and expertise to undertake the valuation. For the sample of revalued PPE assets and investment properties tested, we were satisfied that the basis of the valuation for each asset was appropriate and that the revaluation movements were correctly accounted for. Our audit identified that there were errors in assessing 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 was corrected by management. Our work over the carrying value of assets not subject to formal revaluation in year, consisted of forming an independent expectation of movements in these assets by reference to external sources. We selected appropriate indices and discussed the impact with management and the valuers. We concluded that the movement in value since the last formal valuation of these assets was not material . However the estimate of the movement in the value of those assets since their last valuation of £1.39 million is included in Appendix I as an unadjusted audit difference. The Tamar Bridge was not formally revalued during the year and the Council were provided with assurances from Cornwall County Council that there was no material movement in value since the last valuation in 2014. We challenged this assertion by forming an independent expectation of the value based on appropriate indices, which was discussed with the

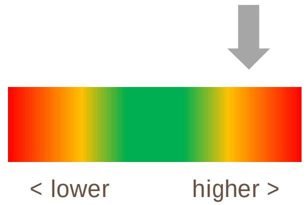
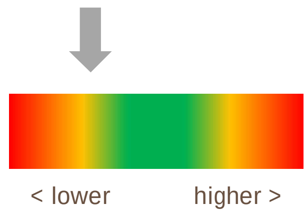
KEY AUDIT AND ACCOUNTING MATTERS

Council. We were satisfied that the movement in the value of Tamar Bridge since its last formal valuation was not material . However the estimate of the movement in its value since its last valuation of £1.434 million is included in Appendix I as an unadjusted audit difference.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Land, buildings, dwellings and investment property valuations

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
Land and buildings are valued by reference to existing use market values Investment properties are valued by reference to highest and best use market value Some specialist buildings are valued at depreciated replacement cost (DRC) by reference to building indices	The Council uses its internal valuers to value the Council's assets on a five-year rolling programme. Of the total of £470 million of other land and buildings, a total of £35 million was revalued as part of the rolling schedule. In addition, as not all assets are revalued each year, the valuer undertook an exercise to identify non-revalued assets that experienced significant movements. As a result of this year end exercise, a further £11 million of assets were revalued. This resulted in a net upward revaluation movement of £2.245 million in the year for property, plant and equipment (£10.725 million as an upward revaluation and £8.480 million as a downward revaluation). In addition, the Council recognised a gain of £9.744 million for investment properties in the draft financial statements submitted for audit. Other land and buildings revalued The valuer revalued three schedules of assets this year, Estate Shops, City Market and Offices. We tested a sample of these r evaluations and by forming an independent expectation of valuation movement, based on external information. We then set a sensitivity on those movements of 2% either side of the expected range to account for local factors. For those properties valued on an existing used basis, six out of 12 tested fell within the expected range. For the remaining properties, these were all in excess of the expected range. We had further discussion with the valuers who were able to provide supporting evidence that the higher valuation was deemed appropriate. Land and Buildings not revalued Other land and buildings not revalued amounted to £423.975 million. Management and their valuers concluded that there was no material movement in the value of these properties since their last revaluation. Given, the revaluations performed have given a net increase of around 6.5% we challenged management on this assumption. In assessing the appropriateness of the Council's nil indexation approach, we determined a suitable index to benchmark the asset's value against, using advice from Gerald Eve LLP, a firm of property consultants and chartered surveyors commissioned by the National Audit Office to assist auditors' consideration of movements in the valuation of non-current assets. Based on this advice, we referred to the MSCI capital index for assets valued on a Existing Use value and the BCIS tender price index and local data adjusted for local factors for assets valued on a depreciated replacement cost basis.	 

KEY AUDIT AND ACCOUNTING MATTERS

Our audit approach considered all of these factors, and determined an expected valuation for each asset. A reasonable range of values was then set based on our professional judgement, taking into account the reliability and quality of the market information, with reference to Gerald Eve LLP's advice as relevant.

We liaised with the Council's valuer with respect to assets outside of the reasonable range to determine any specific factors relating to them, which affect their valuation.

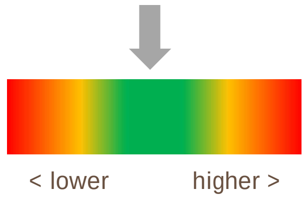
This resulted in an audit difference of an estimated £1.390 million understatement of the value of these assets as at 31 March 2018.

The Code only requires revaluations to be undertaken with sufficient regularity to be materially accurate and does not require formal revaluations where the movement is not material. Whilst this estimated difference is not material it is not trivial and has been included as an estimated audit difference in Appendix I (misstatement 2).

Investment properties

The fair value gain of £9.744 million recognised in the financial statements represents an overall increase of 10% compared to the opening balance at 1 April 2017.

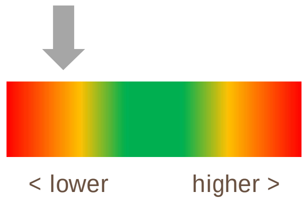
Of the total value of investment properties of £137.628 million, the only materially significant assets are the Royal Mail Regional Centre, which was acquired in June 2017 £19.250 million (and subsequently revalued to £20.508 million), and Friary Park Retail Centre (which consists of a number of units) which was revalued from £24.818 million to £25.783 million.



Tamar Bridge and Tor Point Ferry Crossing

The Council holds 50% of the value of the Tamar Bridge and Tor Point Ferry Crossing in its accounts, which amounts to £56.945 million. This was last formally revalued in April 2014. We would have expected the value of the bridge to move in line with the Constructions Price Output Index and as the key factors are the construction costs and we set a reasonable range of values based on our professional judgement, taking into account the reliability and quality of the market information, with reference to Gerald Eve LLP's advice as relevant.

The carrying value of the Tamar Bridge and Tor Point Ferry Crossing was below the lower end of this reasonable range by £1.434 million This has been included as an estimated unadjusted audit difference, which is included in Appendix I (misstatement 4).



KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Short term debtors existence (New Significant Risk)	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. We consider there to be a significant risk of material misstatement relating to the existence of short term debtors.	We tested an increased sample of short term debtors to ensure they are valid.	Our audit testing did not identify any issues with the existence of short-term debtors.
5	Short term creditors existence (New Significant Risk)	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. We consider there to be a significant risk of material misstatement relating to the existence of short term creditors.	We tested an increased sample of short term creditors to ensure they are valid.	Our audit testing did not identify any issues with the existence of short-term creditors.
6	Pension liability assumptions	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. 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	• 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	• We did not identify any issues regarding the accuracy of the disclosures in the financial statements. • We received the requested assurances from 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. 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 included a prior year

KEY AUDIT AND ACCOUNTING MATTERS

actuary to support the estimate and these are disclosed in the financial statements.

There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.

against other local government actuaries and other observable data.

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 considered the appropriateness of this treatment through review of the agreements, discussion with management and discussion with the actuary.

In the case of Livewell Southwest employees we note that it is appropriate to include these employees in the pension liability as the amounts are in relation to pensions liabilities accrued pre-transfer, and therefore rest with the Council.

In the case of DELT however, in addition to the pre-transfer liabilities, management concluded that ultimately the liability will fall to the Council once the arrangement comes to an end. Therefore the pension liability includes pension liabilities that relate to post-transfer earnings. Strictly speaking, the pension liability should only relate to the amounts accrued up to the date the employees transferred to DELT. Any obligation to meet the pension liabilities accrued whilst employees were still employees of DELT would be a separate financial guarantee.

We note however, that at the balance sheet date, the total liability in respect of DELT employees is £6.6m. Given that this in itself is not material, we do not consider this treatment to be materially incorrect. We have therefore included this in Appendix I, as an unadjusted difference.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE

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

HOW RISK WAS ADDRESSED BY OUR AUDIT

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

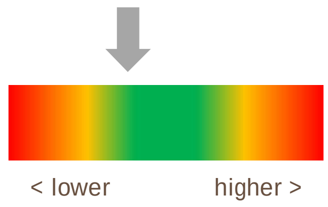
Overall impact of assumptions

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.

IMPACT



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 , and other potential group companies, 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 were identified. We requested a representation from you regarding the completeness of related party transactions.
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 increased its provision for NDR appeals from £2.1 million to £8.1 million. The Council recognised 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	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. As a result, the prior year pension liability increased by £15 million in the draft statement of accounts as a result of processing a prior year adjustment. We were satisfied with the adjustment made but requested amendments to the related disclosures within the financial statements so as to comply with the Code and International Accounting standards including, most significantly, a third column on the Balance Sheet as at 1 April 2016.
2	Prior year adjustment – Grants received in advance	As part of the year-end close process the Council have concluded that a number of grants received in advance, totalling £8.8 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 £8.8 million and increase liabilities by £8.8 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. Additional disclosures were added to the accounts to fully explain the changes to the reader.
3	Prior year adjustment – classification of grants between short-term and long-term	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. Additional disclosures were added to the accounts to explain this adjustment.
4	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 sought and received confirmation from those charged with governance that they were not 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	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.	Following our initial review of the draft financial statements, we noted some inconsistencies in the narrative report, these included: • Cash and short term holdings disclosed did not agree to the balance sheet. This was corrected by management. • 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 audit difference in Appendix 1)
2	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.	We had no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance.

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.

We identified other deficiencies in controls that have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	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.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council met this deadline. Our work on the WGA Data Collection Tool (DCT) is currently ongoing but is expected to be complete before the Audit and Governance Committee at which this report is expected to be considered (1 October 2018). We anticipate being able to give assurances that the DCT is consistent with the financial statements.

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

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable resource deployment (SR)	In our audit plan, we identified sustainable finances as a significant risk area. In January 2018, the Council updated its Medium Term Financial Strategy (MTFS) covering the period to 31 March 2020. 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). 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. 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.	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. 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. 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: • 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. We have reviewed the assumptions underpinning the MTFS and conclude them to be reasonable. 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. This group has also been focussing on identifying new savings to close the budget gaps set out above for the future MTFS periods.

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable resource deployment (continued)		No significant issues have arisen from our work. 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. We issued an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Partnership arrangements (NR)	In our audit plan, we identified partnership arrangements as a normal risk area. 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. The Council also works with several other entities including Cornwall CC in respect of Tamar Bridge as well as on other projects. As with any partnership arrangement, there are risks around governance and control. 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.	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. The Council has developed good working relationships over the years, particularly with the CCG in relation to the Integrated Fund. The significance of these relationships is likely to continue and 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 adequate.

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 being reclassification of £54.8 million of grant creditors from short-term creditors to long-term creditors. There was no impact on the provision of service cost or net assets.

UNADJUSTED AUDIT DIFFERENCES

Our audit identified six unadjusted audit differences this year, which would reduce the deficit on provision of service by £2,571k, 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

		INCOME AND EXPENDITURE	STATEMEMENT OF FINANCIAL POSITION		
		DR/(CR)	Assets	Liabilities	Reserves
	£'000	£'000	£'000	£'000	£'000
Net deficit on provision of service before adjustments	40,978				
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 PPE – Other land and buildings			1,390		
Cr Revaluation reserve/OCI		(1,390)			
(2) Judgemental evaluation of the impact of non-revalued assets					
Dr Tamar Bridge			1,434		
Cr Revaluation Surplus		(1,434)			
(3) Judgemental impact of the indexation of the carrying value of the Tamar Bridge					
Dr Pensions Liability				7,107	

Cr Pension Reserve					(7,107)
(4) Judgemental increase Pensions Assets for the difference between the value of the Council's share of assets scheme assets per the Actuary's report and our expectation for the Council's share					
Dr Expenses		253			
Cr Accruals				(253)	
(5) Write back of accrual incorrectly written off					
TOTAL UNADJUSTED AUDIT DIFFERENCES		(2,571)	2,575	6,854	(6,858)
Deficit on provision of services if adjustments accounted for	38,407				

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	2,571	N/A
Adjustments via movement in Reserves Statement	0	N/A
BALANCES AFTER ADJUSTMENTS	11,739	

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. • The pension deficit figure includes an element that should be reclassified to a financial guarantee. • Provisions on the balance sheet include £210k, which should be reclassified as a creditor. There is no impact on the income statement or balance sheet.

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
Starters and leavers controls should be formalised for Logotech	There is a risk that new users may not obtain a user account in a timely manner or that user accounts may not be disabled/removed in a timely manner. Risk that accounts may be incorrectly generated when there is no business need. This increases the risk of ghost users which may result in a loss of accountability. Risk that users may not be allocated the correct level of access permissions, particularly if more than what is required for the job role has been assigned. Where this occurs, this reduces the effect of a segregation of duties increasing the risk of unauthorised access and/or changes to key data. In the case of leavers unauthorised access via the open account may occur.	Management should ensure that a formal process is in place for notification of starters/modifying access permissions/leavers.	Logotech is a database which contains details of Council investments. As there are only five users of the system, the risks and implications identified are easily manageable without a formal process for starters and leavers.	N/A	N/A
Starters and leavers controls need to be formalised for Techforge	There is a risk that user accounts may not be disabled/removed in a timely manner. This increases the risk that unauthorised access via this open account may occur which may result in incorrect and unapproved changes to key data.	Management should ensure that a formal leavers process is in place. To accomplish this, a formal leavers form/ticket should be issued which must: - be submitted by authorised members of staff only (e.g. Line	We will liaise with Delt and HR to ensure that there are formal processes for starters and leavers.	Carolyn Haynes/Delt	31st Dec 2018

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
		Managers, HR) to the relevant system administrator - outline the systems that the user currently has access and should be removed from - be formally signed off by the systems administrator once the user has been successfully added -remain archived for at least one full year It is also advised for HR to send a list of all leavers over the past fortnight/month which should be distributed to system administrators for them to confirm that the user has indeed been removed from all relevant systems.			
Financial statements	The narrative report does not include information that allows the users to understand how materiality and the group accounts boundary decisions are made and the impact on the financial statements.	Consider including in future years	We will consider these changes for future years, but there are already notes in the Statement of Accounts that discuss our group accounts.	Carolyn Haynes	31st March 2019
Financial statements	• CIPFA's cash flow toolkit was used to prepare the cash flow statement. Balancing figures were included in the toolkit so as to ensure it balanced. These balancing figures do not materially impact on the statement but do indicate errors	The Council should: • revisit its preparation of the cash flow statement toolkit to ensure it is populating the toolkit with the correct values, thus not requiring balancing figures • perform a check of the consistency between the	The Council will review its use of the cash flow toolkit	Stephen Coker	31st March 2019

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
	in the preparation of the statement. • The Council had copied the preparation of the statement from the prior year without consideration of whether the resulting numbers were consistent with other areas of the accounts in the current year. • The Council has not used the adjustment categories in the Code template in its adjustments to the Net Surplus/Deficit on the Provision of Services for non-cash movements (indirect method). This is despite using CIPFA's toolkit for the statement.	values used to prepare the cash flow statement and the equivalent values reported in the rest of the financial statements.			
Narrative Report	Through performing our review of the narrative report we have identified a number of inconsistencies between that and the financial statements.	We recommend that the narrative report is checked to ensure that the information included within it is consistent with the other disclosures in the financial statements, and any figures/%'s quoted all agree to the numbers per the primary statements and subsequent notes in the accounts.	We have revised the format for the narrative report this year and will ensure that it is checked for consistency in future years.	Carolyn Haynes	31st March 2019

APPENDIX III: 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 IV: 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 V: 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 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

www.bdo.co.uk