PLYMOUTH CITY COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

27 November 2018

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Plymouth City Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE CCG

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

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

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

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

BDO LLP

AUDIT CONCUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 13 August 2018.

Our audit identified five errors above our reporting threshold that, if corrected, would reduce the deficit for the year by £2.571 million. These were not corrected by management as they were concluded to be immaterial to the financial statement both individually and cumulatively. We concurred with that conclusion.

Our audit identified one material misstatement in respect of the classification of £54.8m of grants received in advance, which was corrected. This also resulted in a prior year adjustment of £39.6m.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 13 August 2018.

FINANCIAL STATEMENTS

OPINIONS	We issued our unmodified opinion on the Council's financial statements on 13 August 2018.
	This means we consider: • The financial statements give a true and fair view of the financial position and its income and expenditure for the year • Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

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

OUR APPLICATION OF MATERIALITY

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

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

The materiality for the Council financial statements as a whole was set at £10.1 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 1.7 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

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

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

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
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 did not identify any inappropriate journals or significant transactions outside the normal course of business.
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).	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 considered this significant enough to warrant amendment and processed a prior year adjustment to reduce income and reserves by £8.8 million.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	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 were satisfied that we could rely on the work of the Council's valuer. We concluded that the basis of the valuation for each asset revalued in the year was appropriate and that the revaluation movements were correctly accounted for. Our audit identified errors in the fair value of three investment properties. The net impact of which was £254k. This was corrected. From our work over the carrying value of land and buildings assets not subject to formal revaluation in year. We concluded the impact on the financial statements from not revaluing all assets was an understatement of £1.39m in carrying values, which was not material and not corrected. The Tamar Bridge and Tor Point Ferry crossing were not formally revalued during the year and we concluded from our work that they had increased in value since the last formal valuation by £1.434m. This was not material and was not corrected.
Short term debtors existence	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.	Our audit testing did not identify any issues with the existence of short-term debtors.
Short term creditors existence	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.	Our audit testing did not identify any issues with the existence of short-term creditors.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
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 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.	We did not identify any issues regarding the accuracy of the disclosures in the financial statements and our review of the reasonableness of assumptions used to calculate the present value of future pension obligations did not result in any issues arising. 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 £15m 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 concluded that the Council's treatment of these liabilities was not materially misstated.

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 13 August 2018.
	This means we consider that the Council has proper arrangements to: • Ensure it took properly informed decisions • Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.

SCOPE OF THE AUDIT

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

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

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

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

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
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.	No significant issues arose 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.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Grant claims and certification	15 March 2018
Audit plan	15 March 2018
Audit completion report	17 September 2018

FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit – PSAA scale fee	136,874	136,874
Housing benefits subsidy certification fee	17,477	17,477
Total audit fees	154,341	154,341

We provided the following non-audit services:

- Teachers' Pension Return - £4,800

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