

# Plymouth City Council

Annual report to those charged with governance

15 September 2008

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# 1 Introduction

## Background and purpose of the report

Plymouth City Council ('the Council') is responsible for the preparation of accounts which record its financial position as at 31 March 2008 and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's accounts 'present fairly' the financial position of the Council. Our detailed findings are set out in section two.

Under the Audit Commission's Code of Audit Practice we are also required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in section three.

The Audit Commission's Statement of Responsibilities, which sets out the respective responsibilities of the Council and the auditor in relation to the accounts and arrangements for securing economy, efficiency and effectiveness in the use of resources, have been reproduced in full in Appendices A and B and reflects the scope of our audit.

This report summarises the principal matters arising from our audit. The issues raised have been discussed with the Director of Corporate Resources and his team and other officers, as appropriate. Auditing standards require us, as the Council's external auditors, to report to those charged with governance certain matters before giving an opinion on the accounts and the Code of Audit Practice requires us to report key matters relating to our VFM conclusion. For the Council, this function will be carried out by the Audit Committee at its meeting on 24 September 2008.

## The accounts opinion

We have performed our audit of the 2007-08 accounts in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards. Our approach follows that set out in the Audit and Inspection Plan 2007-08, agreed with the Council.

We still have to complete our audit testing and finalisation procedures which include:

- completion of expenditure and employee remuneration;
- our technical team's review on the provision for credit liabilities disclosure note;
- evaluation of the Council's treasury management advisors, 'Sector' to determine if we can rely on their work on estimating the fair value of the Council's loans.
- review of related parties disclosure; and
- audit of the Group accounts, to include reviewing the responses from the external auditors of group organisations, which have been requested to be received before

the 15 September 2008 to consider whether additional audit procedures may be necessary (although this is unlikely).

We shall then be in a position to complete our audit finalisation procedures which include:

- receipt and review of the letter of representation;
- review of the final version of the statement of accounts; and
- updating our Post balance Sheet events review to the date of signing the accounts.

Whilst at the time of reporting to the Audit Committee, the audit has not been fully completed, we expect to issue an **unqualified accounts opinion** on the Council's accounts by the 30 September 2008 deadline. However, due to unresolved issues raised by electors, in exercise of their right under section 15 of the Audit Commission Act 1998 from prior years audits we are unable to certify the audit as complete.

The overall quality of the Council's working papers to support the 2007-08 accounts was adequate and we have recommended some areas where improvements could be made for future years.

We did not recommend any significant adjustments to the accounts. However, we have made five recommendations to enhance the Council's processes to prepare the accounts, ensuring the accuracy of information and maintaining a clear audit trail. In addition, we recommended some minor presentational adjustments, to improve the clarity of disclosure in the accounts.

We recommended three non-significant adjustment to the accounts. Management have decided to adjust for all three. These adjustments have increased the Council's deficit by £162,000. Details of the adjusted errors are set out in Appendix D. There are no unadjusted errors to report.

Further details of our accounts audit are given in section two.

### The VFM conclusion

We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September 2008 deadline.

There are no significant issues we wish to draw to Members' attention.

In giving our VFM conclusion, we have also considered the findings from our 2008 use of resources key lines of enquiry (KLoE) assessment. Following submission of our KLoE scores and Audit Commission national quality assurance, we will write to the Council confirming 2008 KLoE scores, in December 2008.

Key messages from this year's use of resources work are summarised in section three.

### Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and

should not be used for any other purpose. No responsibility is assumed by us to any other person. This report should be read in conjunction with the Council's draft letter of representation.

This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of the accounts and use of resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters

We would like to take this opportunity to remind the Audit Committee of the need to monitor implementation of the recommendations arising out of this report (see Appendix C) and other reports issued during the year (see Appendix F).

### Independence

We are able to confirm our independence and objectivity as auditors and note the following:

- we are independently appointed by the Audit Commission;
- the firm has been assessed by the Audit Commission as complying with its required quality standards;
- the appointed auditor and client service manager are subject to rotation periodically; and
- we comply with the Auditing Practices Board's Ethical Standards. We have not undertaken any non-audit work for the Council (Appendix G).

### Acknowledgements

We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management, officers and members during the course of our audit.

Grant Thornton UK LLP

September 2008

## 2 The accounts opinion

### Introduction

We summarise, in this section, matters arising from our audit of the Council's 2007-08 accounts which we are required, under auditing standards, to report to those charged with governance.

### Approach to the audit

We carry out work to enable us to report to the Council our opinion as to whether the financial statements 'present fairly' the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 ('the SoRP').

Our approach to the audit was set out in our 2007-08 audit plan. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice.

Other key factors to highlight include:

- we consider the materiality of items in the accounts both in determining the audit approach and in determining the impact of any errors;
- we have been able to place appropriate reliance on the key accounting systems operating at the Council for final accounts audit purposes;
- we have been able to place reliance on the work of internal audit in respect of the key accounting systems; and
- no significant changes have been made to our audit approach in the year.

### Key audit findings

We summarise our key audit findings in the following table.

Area	Key messages
Accounting policies and practices	The Council has adopted appropriate accounting policies, in accordance with the 2007 SoRP. We have made a number of presentational recommendations.  We are satisfied that the relevant financial information disclosed in the Explanatory Foreword is consistent with the accounts.

Area	Key messages
Material risks and exposures	<p>The Council has confirmed in its draft letter of representation that it has no material risks and exposures, to date, which should be reflected in the accounts.</p> <p>Our audit procedures have not identified any significant risks and exposures to the Council, to date, which should be reflected in the accounts.</p> <p>This review will be updated on the receipt of the draft letter of representation and again when the Council signs the final letter of representation and we sign our audit opinion.</p>
Significant audit adjustments	<p>We did not recommend any significant adjustments to the accounts. However, we made five recommendations to enhance the Council's accounts preparation process in future years. Details of these recommendations are set out in Appendix C.</p> <p>We recommended some minor presentational adjustments, to improve clarity of disclosure in the accounts.</p>
Non significant audit adjustment	<p>Three adjustments were processed resulting in an increase in the Council's deficit of £162,000. Two other adjustments were processed in the disclosure notes to reflect accurate information. This has had no impact on the reported position of the Council.</p> <p>Details of the adjusted errors are set out in Appendix D.</p>
Unadjusted errors	<p>There are no unadjusted errors to report.</p>
Other matters	<p>The overall quality of the Council's working papers to support the 2007-08 accounts was adequate, and we have recommended some areas where improvements could be made for future years. For example, providing a clear audit trail from the Statement of Accounts to the working papers.</p> <p>We were presented with draft accounts on 7 July 2008. The Audit Committee approved the draft accounts on 30 June 2008.</p> <p>The appointed day for electors to ask the auditor questions on the accounts this year was 20 August 2008. We did not receive any questions or objections from the public in relation to the accounts.</p> <p>Having considered the Council's medium term financial strategy and 2008-09 budgets it is appropriate for the Council to account on a going concern basis.</p> <p>We have not identified any matters, that we have not already reported, that require the attention of the Audit Committee.</p>

### Next steps

We will continue to work with the Council to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2008.

Subject to satisfactory resolution of the above issues, we expect to issue an **unqualified opinion** on the Council's accounts. However, due to unresolved issues raised by electors, in exercise of their right under section 15 of the Audit Commission Act 1998 from prior years audits we are unable to certify the audit as complete.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of Whole of Government Accounts. This work is not covered by our opinion on the Council's accounts. We will complete this work once the accounts audit has been finalised and in time for the 3 October 2008 deadline.

The Audit Committee should monitor implementation of the recommendations arising from this report.

## 3 The VFM conclusion

### Introduction

Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). In meeting this responsibility we review evidence that is relevant to the Council's corporate performance management and financial management arrangements, which are assessed against twelve criteria specified in the Code of Audit Practice.

### Approach to the audit

The following pieces of work have informed our assessment against the Code criteria:

- review of relevant findings from the Council's Comprehensive Performance Assessment (CPA) corporate assessment, as updated by the latest Direction of Travel statement;
- assessment of the Council's data quality management arrangements, using criteria prescribed by the Audit Commission;
- assessment of the Council's arrangements for financial reporting, financial management, financial standing, internal control and value for money, using the Commission's key lines of enquiry (KLoE); and
- other local risk based use of resources work as set out in our 2007-08 plan.

The key findings from each of these pieces of work are summarised in this section of the report.

### VFM conclusion

We have substantially completed our work on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources and we expect to issue an **unqualified VFM conclusion** by the 30 September 2008 deadline.

Our conclusions for each of the 12 Code criteria are set out in the following table.

Code area	Source of evidence	Arrangements adequate?
Setting, reviewing and implementing strategic and operational objectives	Corporate assessment / Direction of travel statement / local assessment	Yes

Code area	Source of evidence	Arrangements adequate?
Communication with service users and other stakeholders and partners	Corporate assessment / Direction of travel statement / local assessment	Yes
Management of performance against strategic objectives	Corporate assessment / Direction of travel statement / local assessment	Yes
Monitoring the quality of published performance information	Data quality audit 2008	Yes
Maintaining a sound system of internal control	KLoE 2008	Yes
Managing significant business risks objectives	KLoE 2008	Yes
Managing and improving value for money	KLoE 2008	Yes
Maintaining a medium-term financial strategy	KLoE 2008	Yes
Ensuring that spending matches available resources	KLoE 2008	Yes
Managing performance against budgets	KLoE 2008	Yes
Managing the asset base	KLoE 2008	Yes
Promoting and ensuring probity and propriety in the conduct of business	KLoE 2008	Yes

### Corporate assessment / Direction of Travel statement

We are required to review the Council's latest corporate assessment or direction of travel statement in order to satisfactorily conclude on three of the Code criteria (see table above). In completing this work we are not required to re-perform the work of the corporate assessment team and the comprehensive area assessment lead, rather we are looking to place reliance on this work.

Our assessment is based on the latest direction of travel statement (February 2008). Based on this work, we assess the Council as having adequate arrangements for objective setting, consultation and performance management.

### Data quality audit 2008

We have recently completed our review of data quality management arrangements, which supports our conclusion that the Council's arrangements are adequate for monitoring the quality of published performance information.

We will update this assessment, as required, following completion of our testing of a sample of the Council's performance indicators and we will write to management with results of this work in November 2008.

### KLoE 2008

Our work on assessing the KLoE for 2007-08 is nearing completion. However, we are not able to formally report scores to the Council until after the Audit Commission's national quality assurance processes are complete. We can, however, confirm that no issues have arisen to date that impact on the VFM conclusion. We will report the results of our work more fully, and confirm scores with the Council, in December 2008.

### KLoE 2009

There have been significant changes to the use of resources assessment criteria for 2009, as part of the new Comprehensive Area Assessment. The Council's management arrangements for the 2008-09 financial year will be assessed against the new criteria that represent a 'harder test.'

Whilst we will not formally assess the Council against the new criteria until Summer 2009, as part of next year's plan, we will continue to carry out our use of resources work with reference to revised requirements to help the Council prepare for future assessments.

### Next steps

We will carry out our final review against any emerging findings and will then issue our VFM conclusion by the 30 September 2008 deadline.

## A Statement of responsibilities - accounts

The accounts, which comprise the published accounts of the audited body, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.

It is the responsibility of the audited body to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare accounts that present fairly the financial position of the body and its expenditure and income.

The audited body is also responsible for preparing and publishing with its accounts a statement on internal control.

Auditors audit the accounts and give their opinion, including:

- whether they present fairly the financial position of the audited body and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Subject to the concept of materiality, auditors provide reasonable assurance that the accounts:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

Auditors examine selected transactions and balances on a test basis and assess the significant estimates and judgements made by the audited body in preparing the statements.

Auditors evaluate significant financial systems, and the associated internal controls, for the purpose of giving their opinion on the accounts. Where auditors identify any weaknesses in such systems and controls, they will draw them to the attention of the audited body, but they cannot be expected to identify all weaknesses that may exist.

Auditors review whether the Annual Governance Statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware. In doing so auditors take into account the knowledge of the audited body gained through their work in relation to the audit of the accounts and through their work in relation to the body's arrangements for securing economy, efficiency and effectiveness in the use of its resources.

Auditors are not required to consider whether the Annual Governance Statement covers all risks and controls, nor are auditors required to form an opinion on the effectiveness of the audited body's corporate governance procedures or risk and control procedures.

## B Statement of responsibilities - VFM

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The audited body is responsible for reporting on these arrangements as part of its annual statement on internal control.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In meeting this responsibility auditors should review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements.

Auditors are responsible for reporting annually their conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors report if significant matters have come to their attention that prevent them from concluding that the audited body has put in place proper arrangements. However, auditors are not required to consider whether aspects of the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning their audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, auditors consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the audited body's statutory functions and objectives, which apply to the audited body and are relevant to auditors' responsibilities under the Code, and the arrangements it has put in place to manage these risks. The auditor's assessment of what is significant is a matter of professional judgement and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. Auditors discuss their assessment of risk with the audited body.

When assessing risk auditors consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type;
- other risks that apply specifically to individual audited bodies;
- the audited body's own assessment of the risks it faces; and
- the arrangements put in place by the body to manage and address its risks.

In assessing risks auditors have regard to:

- evidence gained from previous audit work, including the response of the audited body to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where auditors rely on the reports of statutory inspectorates as evidence relevant to the audited body's corporate performance management and financial management arrangements, the conclusions and judgements in such reports remain the responsibility of the relevant inspectorate or review agency.

In reviewing the audited body's arrangements for its use of resources, it is not part of auditors' functions to question the merits of the policies of the audited body, but auditors may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the audited body to decide whether and how to implement any recommendations made by auditors and, in making any recommendations, auditors should avoid any perception that they have any role in the decision making arrangements of the audited body.

While auditors may review audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources, they cannot be relied on to have identified every weakness or every opportunity for improvement. Audited bodies should consider auditors' conclusions and recommendations in their broader operational or other relevant context.

Auditors are not required to report to audited bodies on the accuracy of performance information that the audited bodies publish. Auditors' work is limited to a review of the

systems put in place by the audited body to collect, record and publish the information, in accordance with guidance issued by the Commission.

Audit work in relation to the audited body's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it auditors' responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although they will be alert to the possibility and will act promptly if grounds for suspicion come to their notice.

## C Action plan

Finding	Recommendation	Priority	Management response	Responsibility and implementation date
<p><b>Layout of the Statement of Accounts</b></p> <p>The order in which the Council's Statement of Accounts and notes to the accounts are presented meet the requirements of the SORP. However, certain presentational improvements could be made to enhance the usefulness of published Statement of Accounts and potentially rationalise the number and length of disclosures.</p>	<p>We will work with the Assistant Head of Finance and colleagues to identify areas where the format and presentation of the accounts could be enhanced, for future years.</p>	<p>Medium</p>	<p>Agreed. Council Officers look forward to working with the Auditor to try to refine and improve the format of the Accounts.</p>	<p>Assistant Head of Finance</p> <p>30 June 2009</p>
<p><b>Reconciliation between assets databases</b></p> <p>Officers have undertaken considerable work to reconcile the asset management records with the fixed asset register.</p> <p>Internal Audit identified that there were only a small number of unreconciled items. The Assistant Head of Finance's view is that the fixed asset register is correct and complete and it is the asset management records that require updating.</p> <p>The total value of these discrepancies are not significant to the accounts.</p>	<p>We concur with the Internal audit recommendation that a regular reconciliation (quarterly) should be undertaken between the asset management records and the fixed asset register.</p> <p>Any unreconciled items should be cleared promptly.</p>	<p>High</p>	<p>Agreed. This has been discussed with property and economic Development staff and a regular reconciliation of the two data bases has been agreed. This will now be undertaken three times a year. In addition procedures have been improved to ensure amendments made either to the asset register or the property data base are communicated between the two sections.</p> <p>A regular review and reconciliation of asset disposals/capital receipts by accountants, together with the senior accountant attending the fortnightly asset review meetings will also strengthen and improve this process</p>	<p>Assistant head of Finance/Assistant Head of Property and Economic Development</p>

Finding	Recommendation	Priority	Management response	Responsibility and implementation date
<p><b>Mount Edgecumbe</b></p> <p>We reviewed the deeds to Mount Edgecumbe and identified that it is jointly owned by Plymouth City Council and Cornwall County Council. The total value of Mount Edgecumbe is £1.1m and it is this amount that is currently recorded on the Council's balance sheet.</p>	<p>The accounting treatment for Mount Edgecumbe should be reconsidered especially in light of recent guidance on the financial management of joint entities and consideration of the requirements of FRS 5.</p>	<p>Medium</p>	<p>Agreed -There has been confusion across local authorities on the correct accounting treatment for joint committee and joint enterprise assets. Officers believe that guidance is to be issued by CIPFA/Audit Commission during 2008/09. The accounts will be adjusted for 2008/09 if appropriate once this guidance has been received.</p>	<p>Assistant Head of Finance</p> <p>30 June 2009</p>
<p><b>Classification of leases</b></p> <p>Plymouth City Council's Surveyor undertook a detailed review of the Council's commercial leases and identified 6 assets that under SSAP21 are considered to be finance leases to the lessee. The potential maximum value of these assets in the fixed asset register are £1.925m</p>	<p>The Council should complete their review of all their leases as a lessor and as a lessee to determine if the correct accounting treatment has been applied.</p> <p>All new leases should be assessed under the criteria of SSAP 21.</p>	<p>Medium</p>	<p>Agreed. The work on the lease classification is to be completed during 2008/09. Due to the impending implementation of IFRS and potential changes to the classification of leases under the new reporting standards, Property and Economic Development staff have been requested to classify leases under both SSAP 21 and IFRS. Any lease that remains a finance lease under both criteria will be reclassified in the accounts for 2008/09.</p>	<p>Assistant Head of Property and Development &amp; Assistant Head of Finance</p> <p>30 June 2009</p>
<p><b>Fixed Asset Register reclassifications</b></p> <p>Upon completion of a capital project, assets are valued and transferred from the under construction category to the relevant asset category e.g. land and buildings.</p> <p>The valuation certificate from the Council's Surveyor apportions the value of the capital project between land and buildings and provides a residual value.</p> <p>This apportionment is not reflected in the fixed asset register. Instead the total value is allocated to the category of operational buildings and the residual value shown is the land value of the asset.</p>	<p>Land and buildings should be treated as separate assets in the fixed asset register in preparation for the implementation of International Accounting Standards in 2010/11.</p>	<p>Medium</p>	<p>Agreed. The valuers have been requested to have regard to the International Accounting Standards when providing valuation information, and finance officers will work to adapt the asset register as appropriate. The Council has identified resources and a named officer to oversee and project manage the move to IFRS</p>	<p>Assistant Head of Finance/Assistant Head of Property and Economic Development</p> <p>30 June 2011</p>

## D Accounts adjustments agreed

	I&E		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<b>Adjustments affecting reported results</b>				
<p><b>Mayflower Leisure Centre</b></p> <p>Our audit included a review of the Mayflower Leisure Centre where the asset was impaired and the useful economic life had been revised as at 31 March 2007.</p> <p>The gross book value of this asset had not been updated resulting in an incorrect depreciation charge.</p> <p>The fixed asset register currently show the depreciation charge to be £756,260. The correct value is £462,500. Overstatement of £293,760.</p>	-	294 Depreciation -	294 Tangible Fixed Assets	-
<p><b>Lambhay Hill Car Park</b></p> <p>Lambhay Hill Car Park was leased out to Sutton Harbour Car Parks Ltd in May 2007 on a 150 year lease for a premium of £866,530. The Council receives 10% of gross annual car park income.</p> <p>Our review of the lease indicates that the 'risk and rewards' of this lease lies with the lessee and not the Council, under SSAP21, and therefore should be treated as a disposal in year.</p> <p>The premium receipt of £866,530.00 was classified as other income and the total amount included in the I&amp;E account. The correct treatment would be to recognise the profit of £410,830 in the I&amp;E. The difference is £455,700.</p>	456 Other income			456 Tangible fixed asset note
<p><b>FRS17 asset valuation</b></p> <p>The Council, in line with other Councils, used the estimated value of assets as at 31 March 2008 provided by the Actuary to form the basis of the FRS17 liability in their accounts.</p> <p>The auditors of Devon County Council Pension Fund have confirmed that the audited net assets for the fund are £5.4m more than the estimated value.</p> <p>The Council's share of the £5.4m has been calculated at £1,000,000, using actuarial figures for the percentage share of assets and is 0.47% of the total deficit of £213,800,000 shown in the Council's accounts.</p>			1,000 FRS 17 liability	1,000 Pension reserve
<b>Total of adjusted errors</b>	<b>456</b>	<b>294</b>	<b>1,294</b>	<b>1,456</b>

	I&E		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<b>Disclosure adjustments</b>				
<b>Leases Note</b>				
<p>The operating leases note should disclose the payments which the authority is committed to make in the future. The operating lease commitments for vehicles, plant and machinery for the Chief Executive Directorate of £829,000 has been added to the disclosure note.</p>				
<b>Audit and Inspection Fees disclosure note</b>				
<p>SoRP2007 requires disclosure of sums that are payable to the auditor for the year, this figure comprises the cost of audit work carried out in relation to the 2007/08 Statement of Accounts, Inspection and grant claims.</p> <p>The Audit Fees note disclosed audit fees for 2007/08 totalling £469,000. This had now been adjusted to £418,000.</p>				

## E Accounts adjustments not processed - Addendum

Within our ISA260 Report dated 15 September 2008, we included a schedule of accounts adjustments not processed by management. This schedule is updated by the information detailed below, which relates to areas that we have been considering and discussing with officers, but that were not finalised at the time we issued our ISA260 report to the Audit Committee.

Adjustments	Impact
<p><b>Non-enhancing expenditure – inconsistent treatment between 2006-07 and 2007-08.</b></p> <p>Note 3(a) changes to accounting policy set out on pages 44 &amp; 45 explains the Council's position on non-enhancing expenditure.</p> <p>In 2006-07, non-enhancing expenditure was taken directly to the Fixed Asset Restatement Account - which was described within the Guidance Notes for Practitioners to the 2006 SORP.</p> <p>It is our view that this treatment is not consistent with the requirements of the SORP. The 2006 SORP requires that non-enhancing expenditure should have been taken to the income and expenditure under the relevant cost of service heading and reversed out through the Statement of Movement on the General Fund Balance. This would therefore not impact upon the bottom line for amounts due from council tax.</p> <p>Non-enhancing expenditure of £54m has been accounted for correctly in the accounts for 2007-08.</p>	<p>We recommend that the accounts should reflect a suitable note to explain the position and not to identify this as a change in accounting policy.</p>
<p><b>Capital expenditure below de-minimus</b></p> <p>The Council currently has an accounting policy to write out expenditure on capital items that are below the de-minimus level in the Income and Expenditure and then reverse the entry out to the Capital Adjustment Account via the Statement of Movement on the General Fund Balance. Total amount of capital expenditure below the de-minimus level was £671,000 in 2007/08.</p> <p>This is not in accordance with the SORP2007.</p>	<p>The Council should revisit their Fixed Asset accounting policy and where necessary revise their capitalisation thresholds.</p>
<p><b>Fair value of PWLB loans</b></p> <p>The 2007 SORP requires local authorities to disclose the fair value of their borrowings. The Council has relied upon estimates of fair value from Sector, their Treasury Advisors, and these estimates has been prepared on a different basis to that envisaged in FRS26.</p> <p>The fair value disclosed in Note 53 of the accounts for PWLB loans is currently £230,004,000.</p> <p>PWLB have calculated the fair value to be £244,221,743.</p>	<p>The fair value of the PWLB loans is understated by £14,217,743. Disclosure issue only.</p>

## F Reports issued

External audit reports issued during the year are listed in the table below.

<b>Report title</b>	<b>Date issued</b>
Audit and Inspection Plan 2007-08	June 2007
Interim Report 2007-08	June 2008
Report on Customer and Access Arrangements	August 2008
Report on Single Status Job Evaluation	August 2008
Report on Partnership Arrangements	August 2008
Annual report to those charged with Governance	September 2008

## G Audit fees update

Audit area	Planned fee 2007-08	Actual fee 2007-08
Financial Statements	199,400	199,400
Use of Resources (Including BVPP)	96,700	96,700
<b>Total Code of Audit Practice fee</b>	<b>296,100</b>	<b>296,100</b>

### Code of Practice audit

As shown in the table above, the 2007-08 actual fee equalled the planned fee.

### Grant claims audit

Grant claim certification work will be completed between September and December 2008. The audit fee was originally estimated at £100,000.

Our work is charged to the Council based on the cost of auditing each claim and the overall fee normally varies from estimate, depending on the number and complexity of claims to be audited, as well as the quality of claim compilation and supporting documentation.

We will update the Council on the final fee charged for 2007-08, in the grant claims report that we will produce in December 2008.

### Non Code work

We have not carried out audit work outside of the Code of Audit Practice audit.



# Grant Thornton

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