

**BRISTOL CITY COUNCIL  
AUDIT COMMITTEE**

**27 SEPTEMBER 2010**

**Report of: Service Director (Finance)**

**Title: Grant Thornton's Annual Report to those charged with Governance 2009-10**

**Ward: Citywide**

**Officer presenting report: Peter Robinson,  
Service Director (Finance)**

**Contact telephone number: 0117 922 2419**

**RECOMMENDATION**

The Audit Committee:

- note, and comment as appropriate, on Grant Thornton's Annual Report to those charged with Governance for 2009-10 and the action plan agreed by management;
- confirm that they are satisfied that the unadjusted misstatement reported in Appendix C to the report does not require processing by management;
- confirm that the Letter of Representation to Grant Thornton is signed;
- note the progress made by Grant Thornton in the delivery of its 2009-10 audit plan, as set out in Appendix E to the report.

**Summary**

Attached to this report is Grant Thornton's Annual Report to those charged with Governance, which highlights the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2010. This report enables Grant Thornton to discharge their audit responsibilities in accordance with International Standards of Auditing (ISA) 260. It also reports their conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **The key considerations set out within this report are:**

- The auditors anticipate issuing an unqualified audit opinion on the Council's accounts and an unqualified VFM conclusion.
- Whilst some amendments were required to the amounts and disclosures reported in the accounts, the overall quality of accounts has improved from previous years.
- The auditors were pleased with the quality of working papers produced by the Council and the ongoing support provided by the Council's finance officers during the course of the audit.

## **Policy**

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. Grant Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements. In particular these are the Audit Commission Act 1998 and the Code of Audit Practice with regard to audit, and the Local Government Act 1999 with regard to best value and inspection.

## **Consultation**

**Internal:** Grant Thornton has discussed and agreed the findings of the audit with the Service Director of Finance and senior council finance officers.

**External:** None.

## **1 Introduction**

1.1 Grant Thornton's 2009-10 Annual Report to those charged with Governance is attached as an appendix to this report. The report provides commentary on:

- the outcomes of the audit of the Council's accounts and the issues arising;
- our proposed conclusion on the VFM opinion. The detailed findings to support this conclusion are set out in the VFM conclusion report, issued as a separate item in this Audit Committee agenda;

- details of the accounts amendments processed and not processed by management. Members of the audit committee are required to confirm that the unadjusted misstatement set out in Appendix C to the report does not require processing by management;
- the action plan arising from their audit of the accounts and managements responses to the matters raised; and
- an update from Grant Thornton on their progress in the delivery of their audit work programme for 2009-10.

1.2 Grant Thornton's auditors responsible for the City Council's audit will be attending the Committee, and will be pleased to answer Members' questions.

### **Other Options Considered**

Not applicable.

### **Risk Assessment**

Not as a result of this report.

### **Equalities Impact Assessment**

There are no issues arising from this report.

### **Legal and Resource Implications**

None arising from this report.

### **Appendices:**

Appendix 1: Grant Thornton's Annual Report to those charged with Governance 2009-10.

Appendix 2: Letter of representation from Management.

## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**Background Papers:** None

**Bristol City Council**

Audit of Accounts 2009-10  
Annual Report to those Charged with Governance

September 2010

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# 1 Executive Summary

## Purpose of the report

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

- 1.1 This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of Bristol City Council (the Council). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2010.
- 1.2 This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.
- 1.3 The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2010, 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 financial statements present a true and fair view of the financial position.
- 1.4 Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Audit conclusions

### Financial Statements Opinion

- 1.5 The Council produced its draft 2009-10 accounts in advance of the 30 June 2010 deadline and presented them to the Audit Committee on 25 June 2010. As in previous years, the working papers were of a good standard.
- 1.6 The key issues arising from our audit relate to accounting for tangible fixed assets and recommendations have been included at Appendix D to address these matters for future years.
- 1.7 In addition, a number of minor presentational and disclosure changes arose during the course of our audit and these have been made to the accounts.
- 1.8 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit Committee on 27 September 2010.
- 1.9 Further details of the outcome of our financial statements audit are given in Section Two and Appendix B and C (adjustments to the financial statements).

### Value for Money Conclusion

- 1.10 In providing our opinion on the financial statements, we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). We are pleased to

report that we propose to issue an unqualified Value for Money conclusion and our detailed findings are included within a separate report, also presented at this meeting.

### **The way forward**

- 1.11 Matters arising from the financial statements and Value for Money audit have been discussed with the Finance Service Director. We have made a number of recommendations, which are set out in the action plan at Appendix D. This has been discussed and agreed with the Finance Service Director and his senior finance team.

### **Use of this report**

- 1.12 This report has been prepared solely for use by the Council to discharge our responsibilities under ISA260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation which is included separately in the Audit Committee papers.

### **Acknowledgements**

- 1.13 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**

September 2010

## 2 Detailed Findings

### **Introduction**

- 2.1 This section provides a summary of findings arising from our audit of the financial statements.

### **Financial Statements Audit**

#### **Status of the audit**

- 2.2 We carried out our audit in accordance with our 2009-10 Financial Statements Plan which was presented to the Audit Committee on 13 November 2009. Our audit is substantially complete, subject to the following finalisation procedures:
- review of documentation relating to grant funding from the South West Regional Development Agency;
  - journal testing;
  - review of the final version of the financial statements;
  - obtaining and reviewing the Council's Letter of Representation; and
  - updating our post balance sheet events review, to the date of signing the accounts.

#### **Key risks**

- 2.3 Our 2009-10 Financial Statements Plan set out the key risks relating to the audit of the financial statements. As part of our interim audit, we completed work in a number of areas to consider the audit risks identified and reported our findings in our Interim Audit Report. As part of our final accounts audit, we have updated our review of these audit risks and have set out in Exhibit One, the outcome of work completed. Our review of the risks facing the Council has not identified any additional risk areas.

**Exhibit One: 2009-10 Key audit risks**

**National and other financial reporting matters**

Key audit risk	Conclusion
<b>SORP 2009 - Accounting for Private Finance Initiatives (PFI)</b>	
<p>The Council continues to work on a number of PFI arrangements for schools. The 2009 SORP requires local authorities to adopt requirements for accounting for PFI schemes that are consistent with International Financial Reporting Standards and the adoption of IFRIC 12 'Service Concessions' contained in the Government's 2009-10 Financial Reporting Manual.</p>	<p>There are currently eight schools that were constructed under PFI schemes, which under UK GAAP were accounted for as off balance sheet, but have been brought onto the balance sheet as a result of the Council's assessment under IFRIC12. This includes schools which are foundation schools and academies. As part of our accounts audit we have reviewed the detailed accounting entries made by the Council to implement these changes and are satisfied that the PFI arrangements are appropriately recognised in accordance with IFRIC 12 and the 2009 SORP.</p> <p>However, lifecycle costs charged in the accounts are based on the schedule of costs set out in the financial close models for each of the PFI arrangements, not the actual amounts spent by the PFI operators. Actual expenditure on lifecycle costs should be requested from the PFI operators so that they can be accurately reflected in the accounts for future years.</p> <p>In addition, PFI liabilities were omitted from the financial instrument disclosures in the accounts presented for audit and there were a small number of other minor disclosure adjustments that were required.</p> <p>We are satisfied that this audit risk has been adequately addressed.</p>
<b>SORP 2009 - Accounting for National Non Domestic Rates and Council Tax</b>	
<p>The 2009 SORP has introduced a number of changes in the accounting for national non domestic rates and council tax in the Council's financial statements. It now requires local authorities to account for transactions on an agency basis. i.e. the Council only discloses its own share of debtors and creditors of the Collection Fund. There is a risk that the Council does not correctly account for these changes.</p>	<p>Our detailed testing has provided us with assurance that the Council has correctly accounted for National Non Domestic Rates and Council Tax in accordance with the revised requirements of the SORP.</p> <p>We are satisfied that this audit risk has been adequately addressed.</p>

Key audit risk	Conclusion
<b>International Financial Reporting Standards</b>	
<p>CIPFA has confirmed that local authorities will be required to follow International Financial Reporting Standards (IFRS) from 1 April 2010. Financial data for 2009-10 will require restatement in order to provide comparative data in the financial statements. There is a risk that the Council has not put adequate plans in place to manage this transition and collate the required information to prepare the restatement entries.</p>	<p>An update setting out the most significant changes under IFRS and the steps being taken to address these was presented to the Audit Committee in November 2009. We have liaised with the Council concerning implementation and provided feedback over the proposed approach for accounting for a number of areas including holiday pay, leases and component accounting. Although no formal deadlines have been set, LAAP bulletin 80 recommends that a balance sheet as at 1 April 2009 should have been prepared by the end of 2009 in order for an authority to achieve the introduction of IFRS by 2010-11. Whilst this has not been achieved, an external specialist has been appointed by the Council to assist with the transition and plans are in place to complete this exercise by early October 2010.</p> <p>We will continue to work with the finance team to ensure that arrangements are put in place for the preparation of comparative accounting information.</p>

### Key local audit matters

Key audit risk	Conclusion
<b>Asset valuations</b>	
<p>FRS 11 requires the Council to formally assess its assets for indicators of impairment and assess the impact of these on the carrying value of its assets. Our 2008-09 audit identified that whilst the Council formally documents its impairment assessment each year, there are inadequate arrangements in place to ensure that these are undertaken on a timely basis, nor do they sufficiently take into account the timings of when the last formal valuation was undertaken. There is a risk that assets are not recorded in the financial statements at appropriate values, that reflect current market conditions. There is also the risk that the Council does not undertake this assessment on a timely basis to enable it to update its asset register to reflect any changes in value at the balance sheet date.</p>	<p>We have reviewed the formal impairment assessment provided by the Council's Head of Valuation Practice to ensure that changes in asset values are accurately reflected in the statement of accounts. This assessment was undertaken in May 2010 and it was concluded that there had not been significant market changes that would lead to an impairment of the Council's assets.</p> <p>We are satisfied that this audit risk has been adequately addressed.</p>

Key audit risk	Conclusion
<b>Accounting for fixed assets</b>	
<p>Our 2008-09 audit identified instances where the Council had not correctly applied its depreciation policy on freehold land or non-operational properties. There is a risk that the Council's depreciation policy is not consistently applied to each type of asset.</p>	<p>As part of our final accounts audit we undertook testing of a sample of assets to ensure that they had been depreciated in accordance with the Council's accounting policies. Whilst we did not identify the same matters with respect to consistency within asset categories, we identified that the depreciation policy has not been correctly applied to Council dwellings. This is discussed in more detail at paragraph 2.8 below.</p>
<b>Adult Social Care expenditure</b>	
<p>At the time of writing our financial statements plan, the Council spending on adult social care is running in excess of budget. We are aware that the Council is focusing attention on the issue, and is putting steps in place to limit or eradicate the overspending. This area is likely, however, to remain at risk throughout the year.</p>	<p>We monitored the forecast position of adult social care spend for the year through review of reports presented to the Cabinet and the Resources Scrutiny Commission. The outturn position for the year is an overspend of £800,000 after consideration of savings and use of £2.7 million contingency. This is an improvement from the projection of £1.2 million that was reported in January 2010. However, adult social care expenditure continues to be a significant cost pressure and we will continue to monitor the financial position.</p> <p>We are satisfied that this audit risk has been adequately addressed.</p>
<b>Housing benefit overpayments</b>	
<p>Our 2008-09 audit identified that the debtor balance reported in the accounts in respect of housing benefit overpayments was not determined on the basis of amounts reported within the Council's housing benefits system. Furthermore, the Council did not have a clearly documented rationale for the determination of its bad debt provision for housing benefit overpayments. There is a risk that debtors are incorrectly stated in the financial statements.</p>	<p>The Council has worked with the housing benefits system provider to develop reports that enable monitoring and reporting of overpayment amounts. These reports have been used to determine the debtor balance at 31 March 2010 of £11 million in respect of housing benefit overpayments and associated bad provision of £9.6 million has been made on the basis of expected recovery based on age of debt.</p> <p>We are satisfied that this audit risk has been adequately addressed.</p>
<b>Provisions and reserves</b>	
<p>Our review of a sample of the Council's provisions disclosed within the 2008-09 accounts identified balances that did not meet the FRS12 criteria to report as a provision. There is a risk that balances are incorrectly classified in the Council's balance sheet.</p>	<p>The Council undertook a review of provisions during the year and as a result a number of balances were reclassified as reserves. Our audit work has not identified any provisions disclosed within the 2009-10 accounts that do not meet the FRS12 criteria.</p> <p>We are satisfied that this audit risk has been adequately addressed.</p>

Presentation and format of accounts	
<p>Our review of the draft 2008-09 accounts identified a number of disclosure and presentational adjustments and instances where there was inconsistency between figures reported in more than one note to the accounts. There is further scope for the Council to improve the format and presentation of its accounts to ensure that these are better and more clearly understood by the reader.</p>	<p>The Council undertook a management reviews of the accounts before they were approved by the Audit Committee as well as reviewing accounts from other local authorities to identify best practice. Whilst there is still scope to ensure that disclosures within the accounts are consistent, the presentation and format of the accounts has improved. In addition, a more fundamental review of the content and format of the accounts will be undertaken as part of the introduction of International Financial Reporting Standards in 2011.</p> <p>We are satisfied that this audit risk has been adequately addressed.</p>

- 2.4 The Audit Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.

#### **Matters arising from the financial statements audit**

- 2.5 We were presented with the draft financial statements in advance of the statutory deadline of 30 June 2010. The overall quality of the Council's working papers was of a good standard and audit queries were responded to efficiently.
- 2.6 Regular liaison meetings were held between the audit team and key finance officers prior to the preparation of the draft accounts, and throughout the audit fieldwork. This enabled early resolution of emerging issues. We would like to place on record our appreciation to those officers involved in this process.
- 2.7 Matters arising from the financial statements audit are set out below. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix D.

#### **Accounting for fixed assets**

##### Depreciation on council dwellings

- 2.8 £24.4 million has been charged in the accounts as depreciation on council dwellings. This has not been calculated on an individual asset basis through the fixed asset register as the register does not reflect the range of useful economic lives which the different types of dwellings should be depreciated over. Instead, the depreciation has been calculated based on the average asset balance for the year. This is not consistent with the calculation of depreciation in prior years and is only an approximation of the policy to depreciate in the year of disposal but not in the year of acquisition.
- 2.9 The Council should ensure that the fixed asset register is updated to ensure that records in respect of council dwellings reflect the actual useful economic lives of these assets, and therefore enable proper calculation of depreciation on an individual asset basis.

#### Housing revenue account capital expenditure

- 2.10 Expenditure of £43 million on housing revenue account assets has been capitalised in 2009-10. However, it was identified that £800,000 of sampled expenditure included amounts for painting and replacement of windows, which are not permitted to be capitalised by the SORP. The Council was unable to identify how much of this related specifically to painting and replacement of windows as they form part of contract arrangements which include other works.
- 2.11 In addition, our work identified that all of these capitalised amounts have subsequently been impaired as they were not deemed to add value. The Council should improve arrangements in place to ensure that all expenditure capitalised in year is appropriately reviewed to confirm that amounts are capital in nature and have added value.

#### Modern equivalent asset (MEA) valuation

- 2.12 The 2008 SORP brought in the requirement for local authorities to undertake valuations of specialised assets on an MEA basis in accordance with RICS Valuation Paper 10. The Council has confirmed that adjustments need to be made to the valuation of specialised property assets to ensure that they are in line with these requirements and we recommend that arrangements are put in place to ensure that is done as part of IFRS transition work.

#### **Statement of total recognised gains and losses (STRGL)**

- 2.13 The STRGL reconciles the movement in the balance sheet from one period to the next, and it is important that the outturn on the STRGL matches the movement on the balance sheet for the year. To allow this, all gains and losses in the year need to be accounted for through the income and expenditure account, with the exception of gains and losses arising from revaluations, and actuarial gains and losses on pension fund assets and liabilities. There is an expectation therefore that no 'other' balances should be reported in the STRGL. Where additional balances are reported here, this normally indicates underlying problems elsewhere in the accounts.
- 2.14 The STRGL in the financial statements presented for audit reported a £510,000 movement in other funds and balances. This amount has not been analysed to identify the cause of this unallocated amount. Similar matters were also reported following the audit of the 2007-08 and 2008-09 accounts.

#### **Valuation of Avon Pension Fund Net Assets**

- 2.15 We received notification on 13 September 2010 from the auditors of the Avon Pension Fund that they had identified that the net assets as at 31 March 2010 had changed from the assumed value of assets used by the actuary in the FRS17 reports to the scheduled and admitted bodies. There has therefore been an underestimation in the assets of the fund. Bristol City Council's share of this difference has been calculated as £4.8 million, using the actuarial calculation of the percentage share of assets in the fund. This adjustment has been processed by the Council, reducing the overall net pension liability and pension reserve in the Council's balance sheet.

#### **Port investment**

- 2.16 The Council has an £11 million investment in the Bristol Port Company for which a professional valuation was obtained in 2006. This provided a wide range of valuations that appropriately demonstrated that the range of fair values estimates is significant and the probability of these various estimates cannot be reasonably assessed. The investment was therefore classed as an 'unquoted investment for which a reliable fair value cannot be established'.

- 2.17 £8.5 million of this investment is due to be redeemed in March 2011. Due to this expected change in the shareholding and the date of the last valuation, we recommend that a new valuation is sought before the preparation of the 2010-11 accounts.

#### **Other accounts issues arising**

- 2.18 In addition to the matters raised above, there were a number of other minor presentational and disclosure changes that arose during the course of our audit and these have been made to the accounts.

#### **Adjusted misstatements**

- 2.19 Our audit identified a number of classification and disclosure adjustments which have been processed by management.
- 2.20 Details of these adjusted misstatements are included at Appendix B. There is no overall effect of the adjustments to the reported deficit and there is no impact on the Council's general fund reserve.

#### **Unadjusted misstatements**

- 2.21 Our audit work identified a misstatement within the accounts of £510,000 which has not been resolved by management on the basis of materiality. The adjustment relates to the STRGL as discussed above at paragraph 2.13. This is included at Appendix C.
- 2.22 The Audit Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust for this item and to minute its decision.

#### **Financial Statements Opinion**

- 2.23 We anticipate providing an unqualified opinion on the Council's financial statements, following approval of the accounts by the Audit Committee on 27 September 2010.

#### **Financial performance**

- 2.24 Revenue monitoring reports are presented to both the Cabinet and the Resources Scrutiny Commission to show the forecast year end position by directorate and for the Council as a whole. The outturn report showed a net underspend of £2.2 million against the 2009-10 revenue budget of £369.4 million. This was an improved position from the overspend position that had been forecast throughout the year.

- 2.25 The most significant spending pressures throughout the financial year have been within the Health and Social Care directorate. These have been monitored through the introduction of an action plan with update reports being presented to the Resources Scrutiny Commission to enable more detailed financial monitoring. As noted above the outturn position within Health and Social Care was an improvement from the previous projection, although the overspend position of £800,000 was after use of £2.7 million contingency.
- 2.26 The current economic climate has placed significant pressure on the public sector and local government in particular, to generate efficiencies and operate within reduced resources. In response to this the Council has published detailed information on major service areas to enable informed consultation with respect to future financial plans.

### **Evaluation of key controls**

- 2.27 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.
- 2.28 We performed a high level review of the general information technology (IT) control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts, although two recommendations were raised.
- 2.29 We have reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to provide adequate assurance on the effective operation of controls, although some minor improvement points were identified. We have therefore taken assurance that the work of internal audit contributes to an effective internal control environment at the Council.

### **Annual Governance Statement**

- 2.30 We have examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS). In addition, we read the AGS to consider whether the statement is in accordance with our knowledge of the Council.
- 2.31 We have concluded that the Council has good arrangements in place to compile the AGS and provide a strong audit trail for the Chief Executive and Leader to sign the statement. This involves consideration of the Internal Audit Annual Report and joint review by the Standards Committee and the Audit Committee, with any issues identified in the AGS incorporated into the corporate risk register to enable effective monitoring and review.

### **Value for Money**

- 2.32 The Audit Commission's Code of Audit Practice requires us to assess whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

- 2.33 Our 2010 Value for Money conclusion has been informed by work carried out on Use of Resources up until the abolition of Comprehensive Area Assessment, and other local risk based work carried out in accordance with our 2009-10 Audit Plan.
- 2.34 On the basis of the work completed, we propose to issue an unqualified Value for Money conclusion. Our detailed findings and recommendations arising from the review are set out in a separate value for money conclusion report.

### **Next steps**

- 2.35 The Audit Committee is required to approve the financial statements for the year ended 2009-10. In forming its conclusions the Committee's attention is drawn to the adjustments to the accounts and the required Letter of Representation.

## A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.

To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.

To provide to those charged with governance constructive observations arising from the audit process.

ISA260 reporting requirement	Key messages
<b>Independence</b>	<p>We are able to confirm our independence and objectivity as auditors and draw attention to the following points:</p> <ul style="list-style-type: none"> <li>• We are independently appointed by the Audit Commission.</li> <li>• The firm has been assessed by the Audit Commission as complying with its required quality standards.</li> <li>• The appointed auditor and client service manager are subject to rotation in line with the Audit Commission's requirements.</li> <li>• We comply with the Auditing Practices Board's Ethical Standards.</li> <li>• We have charged an audit fee of £307,570 for the audit of the financial statements and £193,380 VFM conclusion.</li> <li>• In addition, we have charged £9,000 for the review of the accounting opinion for the Hengrove Park Leisure PFI.</li> <li>• We are satisfied that the provision of non audit services has not impaired our independence.</li> </ul>

ISA260 reporting requirement	Key messages
<b>Audit Approach</b>	<p>Our approach to the audit was set out in our 2009-10 Financial Statements 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:</p> <ul style="list-style-type: none"> <li>• We consider the materiality of items in the financial statements in determining the audit approach and in determining the impact of any errors.</li> <li>• We have been able to place appropriate reliance on the key accounting systems operating at the Council for financial statement audit purposes.</li> <li>• In 2009-10 we have been able to take assurance from the work of internal audit in contributing to an effective internal control environment at the Council.</li> </ul>
<b>Accounting Policies</b>	<p>The Council has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies are in accordance with the SoRP 2009.</p> <p>The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18.</p> <p>We have considered the Council's financial plans and consider it appropriate for the Council to continue to account on a going concern basis.</p>

ISA260 reporting requirement	Key messages
<b>Material Risks</b>	<p>The Audit Committee should confirm that it is not aware of any additional material risk areas facing the Council, including significant fraud risks.</p> <p>We have requested from the Council a Letter of Representation, to state that there are no additional material risks and exposures as at September 2010, which should be reflected in the financial statements.</p> <p>We will also perform our own audit procedures to ensure that all significant risks and exposures to the Council have been recognised in the accounts as at September 2010. We will focus on accounting provisions and cash flow forecasting over the next 12 months.</p>
<b>Audit Adjustments</b>	<p>We have discussed with management the adjustment to the accounts, primarily to improve the fair presentation of the financial statements, as well as the clarity and presentation of disclosure notes.</p> <p>These adjustments are summarised at Appendix B.</p>
<b>Unadjusted Errors</b>	<p>We have identified one unadjusted error to the accounts which requires reporting to those charged with governance. The unadjusted error relates to the Statement of Total Recognised Gains and Losses.</p> <p>The Audit Committee needs to satisfy itself of the appropriateness of the approach taken by management not to adjust and to minute its decision.</p> <p>This adjustment is summarised at Appendix C.</p>
<b>Other Matters</b>	<p>We have made recommendations in respect of some areas for improvement. Recommendations and agreed action are listed in the Action Plan at Appendix D.</p>

## B Adjustments to the financial statements

The table below lists all significant audit adjustments which have been processed and agreed with the Director of Finance.

### Adjustment Type

**Misstatement** - A change to the value of a balance presented in the financial statements.

**Classification** - The movement of a balance from one location in the accounts to another.

**Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	£000	Accounts balance	Impact on financial statements
Misstatement	£4,800	<b>Valuation of Avon Pension Fund - Balance Sheet</b> The auditors of the Avon Pension Fund have identified that the net assets at 31 March 2010 have changed from the assumed value used by the actuary to inform the Council's accounts.	Reduction in pensions liability and pensions reserve of £4,800,000.
Classification	£17,271	<b>PFI Grant - Income &amp; Expenditure Account</b> Amounts received as PFI grant had been included as a general grant within the bottom of the I&E account. However, as amounts are tied to the delivery of education services these should be included with net cost of services under Children and Education Services.	No effect on deficit for the year.  £17,271,000 reclassified into net cost of services.
Classification	£15,500	<b>Assets under Construction</b> Broadmead assets should be transferred into investment properties as no longer assets under construction following completion of planned work.	No net effect on tangible fixed assets.  £15,500,000 reclassified from assets under construction to investment properties.

Adjustment type	£000	Accounts balance	Impact on financial statements
Disclosure	Not applicable	<p><b>Related Party Transactions - note 12</b></p> <p>In order to meet SORP disclosure requirements, note 12 has been updated to include details of material year end balances with related parties, as well as the total value of transactions for 2009-10.</p>	Additional disclosures added to note 12.
Disclosure	Not applicable	<p><b>Deferred Liabilities - note 17</b></p> <p>The Council's balance sheet as at 31 March 2010 contains deferred liabilities of £70 million. Due to the significance of this balance, the note has been updated to include a quantified breakdown of what items are included in this balance.</p>	Additional disclosure added to note 17.
Disclosure	Not applicable	<p><b>Finance Leases - note 22</b></p> <p>In order to meet SORP disclosure requirements, note 22 has been updated to disclose accumulated depreciation in respect of assets held under finance leases.</p>	Additional disclosures added to note 22.
Disclosure	Not applicable	<p><b>Operating Leases - note 23</b></p> <p>In order to meet SORP disclosure requirements, note 23 has been updated to disclose:</p> <ul style="list-style-type: none"> <li>• aggregate rentals and related asset values where the Council acts as lessor; and</li> <li>• annual future commitments by year of expiry rather than total future commitments.</li> </ul>	Additional disclosures added to note 23.

Adjustment type	£000	Accounts balance	Impact on financial statements
Disclosure	£155,726	<p><b>Financial instruments - note 35</b></p> <p>Private finance liabilities of £155,726,000 had not been included in the financial instrument disclosures.</p> <p>In addition, a number of other disclosed amounts were adjusted to agree to the primary financial statements.</p>	Additional disclosure added to note 35
Disclosure	Not applicable	<p><b>Post balance sheet events - note 41</b></p> <p>A non-adjusting post balance sheet event disclosure has been included within the accounts to reflect the government's announcement for public service pensions to be linked to the consumer price index rather than the retail price index.</p>	Additional disclosure added to note 41
Disclosure	Not applicable	<p><b>Accounting policies - tangible fixed assets</b></p> <p>Accounting policy disclosures have been adjusted to clarify:</p> <ul style="list-style-type: none"> <li>• that land is not subject to depreciation; and</li> <li>• the range of expected lives over which council dwellings are depreciated.</li> </ul>	Disclosure clarified in accounting policy 13
Disclosure	Not applicable	<p>In addition to the above, there were a number of minor disclosure and presentational adjustments we requested to improve the accounts. To ensure SORP compliance and aid understanding, the Council has made the suggested presentational and disclosure adjustments.</p>	

The overall effect of the above is that there is no net impact on the balance sheet and there is no net impact on the Council's income and expenditure position.

## C Summary of unadjusted differences

Adjustment type	£000	Accounts balance	Impact on financial statements
Misstatement	£510,000	<b>Statement of total recognised gains and losses</b> The STRGL contains a (£510,000) movement in other funds and balances, indicating misstatements elsewhere in the accounts. This amount has not been analysed to enable correction.	

## D Action Plan

Rec. No.	Para Ref	Recommendation	Priority H/M/L	Council response	Implementation date and responsibility
1	2.3	<p><b>Private Finance Initiative - Lifecycle costs</b></p> <p>Lifecycle costs charged in the accounts are based on schedule of costs set out in the financial close models for each of the PFI arrangements, not the actual amounts spent by the PFI operators. Actual expenditure on lifecycle costs should be requested from the PFI operators so that they can be accurately reflected in the accounts for future years.</p>	Medium	Agreed. Actual expenditure on lifecycle costs shall be requested from the PFI operators so it can be reflected in the accounts in future years.	Capital Finance Manager With effect from 1 April 2010
2	2.8	<p><b>Depreciation of council dwellings</b></p> <p>The fixed asset register should be updated to ensure that records in respect of council dwellings reflect the actual useful economic lives of these assets, and therefore enable proper calculation of depreciation on an individual asset basis.</p>	High	<p>Depreciation has been calculated based on grouping of common asset types from the asset register and is directly consistent with the method adopted in previous years. Average asset values are only employed in the calculation of depreciation on disposals which is not a material element of the charge.</p> <p>A review of the asset register is underway to ensure that economic useful lives are recorded and this will be in place for the 10/11 year end</p>	HRA Finance Business Partner  Head of Valuation and Practice  March 2011

Rec. No.	Para Ref	Recommendation	Priority H/M/L	Council response	Implementation date and responsibility
3	2.10	<p><b>Housing revenue account capital expenditure</b></p> <p>All expenditure capitalised in year should be subject to review to ensure that amounts are capital in nature and to assess whether amounts have added value to the assets.</p>	High	<p>Regular review will be undertaken on a sample basis to identify items proposed to be capitalised to ensure accuracy of classification.</p> <p>Further work need to be undertaken to develop a process to identify value added in the context of the process of valuation of property.</p>	<p>HRA Finance Business Partner September 2010 Head of Valuation and Practice March 2011</p>
4	2.12	<p><b>Modern equivalent asset valuations</b></p> <p>The Council should ensure that valuations of specialised assets are undertaken on a modern equivalent asset basis from 1 April 2010.</p>	Medium	<p>Agreed. Specialised assets will be valued using the modern equivalent basis where applicable from 1 April 2010.</p>	<p>Head of Valuation and Practice With effect 1 April 2010.</p>
5	2.16	<p><b>Port investment</b></p> <p>A new professional valuation of the Council's valuation in the Bristol Port Company should be obtained before the preparation of the 2010-11 accounts.</p>	High	<p>This will be considered as part of the closedown process for the 2010-11 Statement of Accounts and will be discussed further with Grant Thornton.</p>	<p>Finance Service Director March 2011</p>

## E Progress against 2009-10 Audit Plan

<b>Audit progress report</b>					
<b>Work Area</b>	<b>Reason chosen</b>	<b>Work objective</b>	<b>Draft to lead officer</b>	<b>BCC Lead Officer</b>	<b>Progress to date</b>
<b>Performance</b>					
Financial Standing	Identified risk	To review the effectiveness of the Council's internal management reporting arrangements, including estimates and the quality of data in support of the assumptions made to project its year end outturn forecasts.	May 2010	Peter Robinson	Draft discussed and agreed with lead officer. Final report to be presented to November 2010 Audit Committee meeting.
Follow up of capital project management (review of Redland Green)	Identified risk	To review the Council's arrangements to monitor and deliver its significant capital projects, both on schedule and within budget. This work is part of a follow up of our review in 2007- 08 of the Redland Green project. We will assess whether action has been taken to address issues identified, using the Museum of Bristol project as a tracer.	June 2010	Peter Robinson & Alun Owen	Field work has been completed. Final report was presented to September 2010 Resources Scrutiny meeting.
Follow up review of asset management arrangements	Identified risk	This review will follow up the outcomes of the work of the Audit Commission's Asset Management review undertaken in 2007 and consider the Council's current arrangements to ensure delivery of its Capital Strategy.	June 2010	Peter Robinson	Fieldwork has been completed. Management responses agreed with lead officer.

<b>Audit progress report</b>					
<b>Work Area</b>	<b>Reason chosen</b>	<b>Work objective</b>	<b>Draft to lead officer</b>	<b>BCC Lead Officer</b>	<b>Progress to date</b>
Business Transformation	Identified risk	To review the Council's programme management arrangements for ensuring the effective delivery of the transformation programme, in particular focussing on the shared transactional services and new ways of working programmes.	May 2010	David Trussler & Chris Tatner	Final report presented to September 2010 Audit Committee.
Neighbourhood Partnerships	Identified risk	To review the project management, governance and partnership arrangements for the My Neighbourhood programme to deliver its objectives and improved outcomes.	To be confirmed	Graham Simms	Scope has been discussed with Deputy Chief Executive. Further discussions to be held to confirm timings and scope of fieldwork to meet Council's requirements.
Review of West of England Partnership (Transport) - Joint review with Audit Commission.	Identified risk	To review the effectiveness of the organisational arrangements to formulate and deliver the joint transport plan of the four councils through the West of England Partnership.	N/A	Jan Ormondroyd	Due to the impact of the abolition of CAA, the Audit Commission has discontinued work in this area.
<b>Assessment</b>					
Use of Resources/ Value for Money conclusion	Code of Audit Practice	To provide evidence for Value for Money conclusion	September 2010	Will Godfrey	Due to the impact of the abolition of CAA, scored judgements will no longer be provided.

<b>Audit progress report</b>					
<b>Work Area</b>	<b>Reason chosen</b>	<b>Work objective</b>	<b>Draft to lead officer</b>	<b>BCC Lead Officer</b>	<b>Progress to date</b>
					Feedback report and action plan has been presented at the September 2010 Resources Scrutiny and Audit Committee. The VFM conclusion which is based on this work is delivered alongside our accounts opinion to the Audit Committee in September 2010.
<b>Accounts</b>					
Systems of internal financial control	Code of Audit Practice	To gain assurance from systems of financial control for opinion	June 2010	Peter Robinson	Interim audit now complete. Report presented at June audit committee.
Internal Audit	Code of Audit Practice	To review the extent of reliance and compliance with professional standards	June 2010	Dick Powell	Interim audit now complete. Report presented at June audit committee.
Annual Governance Report (ISA260 report)	Statutory requirement	To comment on all code work undertaken to date and include the items needed to be discussed with those charged with governance	September 2010	Peter Robinson & Dave Miles	Work complete. Report presented at September Audit Committee.

<b>Audit progress report</b>					
<b>Work Area</b>	<b>Reason chosen</b>	<b>Work objective</b>	<b>Draft to lead officer</b>	<b>BCC Lead Officer</b>	<b>Progress to date</b>
Opinion	Code of Audit Practice	To provide an opinion on the accounts	September 2010	Peter Robinson	Work complete. Report presented at September Audit Committee.
<b>Other reports</b>					
Annual Audit Letter	Code of Audit Practice	To summarise issues arising from audit inspection and assessment work	October 2010	Jan Ormondroyd & Peter Robinson	Draft to be discussed with officers in October 2010 once audit work for the year is complete. This will be presented to the November 2010 Audit Committee.



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Grant Thornton UK LLP  
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27 September 2010

Dear Sirs

**Financial Statements for the Year Ended 31 March 2010**

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other officers and members with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements

- i We acknowledge our responsibilities for ensuring that financial statements are prepared which give a true and fair view of the financial position of the Council in accordance with the SoRP and for making accurate representations to you.
- ii As far as we are aware:
  - a there is no relevant audit information of which you are unaware; and
  - b we have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that you are aware of that information
- iii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iv All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly recorded in the accounting records and reflected in the financial statements.
- v All other records and related information, including minutes of all Council and Committee meetings, have been made available to you
- vi We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the 2009 SoRP, we selected the estimation technique considered to be the most appropriate to the Council's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for FRS 17 disclosures are consistent with

our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

- viii The financial statements are free of material misstatements, including omissions
- ix We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud
- x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
- xi We are not aware of any irregularities, including fraud, involving management or employees of the Council. We are not aware of any instances of actual or possible non-compliance with laws, regulations, contracts, agreements or the Council's constitution that might result in the Council suffering significant penalties, other loss or affecting the financial statements. No allegations of such irregularities, including fraud, or such non-compliance have come to our notice
- xii We have disclosed to you all related parties and there were no transactions with officers, members or other related parties which should be disclosed in the financial statements except as disclosed in note 12.
- xiii Except as stated in the accounts:
  - a there are no unrecorded liabilities, actual or contingent
  - b none of the assets of the Council has been assigned, pledged or mortgaged
  - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure
- xiv We have compiled our accounts in accordance with FRS 5 Application note G ('revenue recognition'). We have recognised income when we have obtained the right to consideration following the fulfilment of contractual obligations concerning the supply of goods and services.
- xv The split of the Unitary Charge for the schools PFI projects has been determined using appropriate modelling based on our best estimate of the charges for capital, service and lifecycle costs from the Operator's model.
- xvi Valuations of investments in companies included in the accounts are based on appropriate estimation techniques. Where the Council has not been able to determine valuations with sufficient reliability this has been disclosed in the financial statements.
- xvii We have disclosed to you the likely outcomes of litigation or uncertain situations, which have been disclosed in the financial statements where appropriate.
- xviii There are no claims, legal proceedings or other matters which may lead to a loss falling on the Council or which could result in the creation of an unrecorded asset, that should be disclosed in the financial statements

- xix The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance
- xx We have no future plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements, other than as required by the restatement of accounts under International Financial Reporting Standards in accordance with the 2010 Code.
- xxi No significant events having an effect on the financial position of the Council have taken place since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto
- xviii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
- xvix We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, attached to the ISA 260 Report to those charged with governance, as we consider that they are immaterial to the results of the Council and the financial position at the year-end.

**Approval**

The approval of this letter of representation was minuted by the Audit Committee at its meeting on 27 September 2010

Signed on behalf of Bristol City Council.

Name .....	Name.....
Position .....	Position .....
Date .....	Date .....