

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

30 SEPTEMBER 2011

Report of: Service Director (Finance)

Title: Grant Thornton's Annual Report to those charged with Governance 2010-11

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 2010-11 and the action plan agreed by management;
- confirm that they are satisfied that the unadjusted misstatements reported in Appendix B to the report do not require processing by management; and
- confirm that the Letter of Representation to Grant Thornton is signed.

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 2011. 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.
- This is the first year that the Council is required to prepared its under accounts under International Financial Reporting Standards (IFRS). Overall the financial statements have been prepared to a good standard.
- A small number of disclosure errors have been identified and discussed with management following the audit. Where agreed, these changes have been made to the accounts.
- Recommendations have been made to management to further improve the accounting of its Property, Plant and equipment and the quality of its working papers. Management responses to these recommendations are set out in the Action Plan at Appendix C to this report.

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 2010-11 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 financial statements and the issues arising;

- our proposed conclusion on the VFM opinion;
- details of the amendments processed and not processed by management. Members of the audit committee are required to confirm that the unadjusted misstatements set out in Appendix B to the report do not require processing by management; and
- the action plan arising from their audit of the financial statements and managements responses to the matters raised.

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 2010-11.

Appendix 2: Letter of representation from Management.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Bristol City Council

Annual report to those charged with governance (ISA 260)

September 2011



BALANCE SHEET
31st March 2011

| Assets | Liabilities |
|---------------------|-------------------|
| Fixed Assets | Capital |
| Current Assets | Reserves |
| Current Liabilities | |
| Total Assets | Total Liabilities |

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1 Executive summary

Purpose of this report

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 Council's financial statements for the year ending 31 March 2011.

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 ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, 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.

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

We were presented with draft financial statements and accompanying working papers on 24 June 2011, in advance of the 30 June 2011 deadline. The financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS). A great deal of work has been done by officers to prepare the accounts and they were of a good standard, and included good, detailed disclosures. There were a few disclosure errors and we have suggested and discussed a number of disclosure changes following our work. Where agreed these changes have been made to the accounts.

Based on our work to date, there are no significant adjustments which impact the reported results for the year, required to the financial statements, but there have been a number of classification and disclosure amendments required.

The key messages arising from our audit of the Council's financial statements are:

- whilst we acknowledge that requirements for working papers are distributed across the Council, changes in auditing standards means there is increased need to ensure that documentation supports and reconciles to all items within the accounts ; and
- the need to ensure revised procedures are put in place to strengthen year end arrangements relating to property, and other areas e.g. financial instruments, to reduce the level of disclosure errors in the accounts.

Subject to the required audit adjustments being made, we anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 30 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

Value for Money Conclusion

In providing the 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 expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

Further details of the outcome of our value for money work is given in Section 3.

The way forward

Matters arising from the financial statements audit have been discussed with the Service Manager - Corporate Finance. We have made a small number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Service Manager - Corporate Finance and the senior finance team.

Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, 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.

Acknowledgements

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

Grant Thornton UK LLP

22 September 2011

2 Key audit issues

Matters identified at the planning stage

We report our findings in line with our planned approach to the audit which was communicated to you in our Interim Report and Update to Financial Strategy dated June 2011.

Our response to the matters identified at the planning stage are detailed below.

| Issue | Audit areas affected | Work completed | Assurances gained |
|-----------------------|---------------------------------------|---|--|
| Accounting under IFRS | All areas of the financial statements | <ul style="list-style-type: none"> We have reviewed the Council's accounting policies and material balances and transactions impacted by the transition to ensure the accounts reflect the requirements of IFRS. | <ul style="list-style-type: none"> The 2010-11 financial statements comply with the requirements of IFRS. The impact of the transition to IFRS has been appropriately disclosed and the 2009-10 accounts restated accordingly. |

| Issue | Audit areas affected | Work completed | Assurances gained |
|-----------------------------------|---------------------------------------|---|--|
| Financial performance pressures | All areas of the financial statements | <ul style="list-style-type: none"> We have performed walk-through testing of the operating expenditure cycle. We have reviewed the Council's financial controls, and monitored its financial performance to complete our analytical review procedures and throughout the year, including discussions with officers. We reviewed the Council's financial performance for the year against its agreed budget and prior year and tested expenditure We considered the use of general reserves during the year and at year end. | <ul style="list-style-type: none"> Our work on the financial statements provided assurance that results are in line with Council activities during the year. We made one recommendation in this area to enhance the analysis of variances at directorate level. Our work on creditors, payments and accruals has provided assurance that amounts have been appropriately recognised and in the correct period. Testing of provisions confirmed that provisions are reasonable and comply with accounting standards. Our knowledge of the Council has not indicated the omission of significant provisions at year end. The Council's reserves have been reviewed for accounting treatment and the appropriate use of reserves. This did not identify any areas of concern. |
| Depreciation of Council dwellings | Property, plant and equipment | <ul style="list-style-type: none"> We acknowledge that the Council had not progressed as planned with its planned update of the fixed asset register due to delays by CIPFA in releasing an upgrade to the software. We reviewed, and performed, reconciliations to the fixed asset register. The Council has used Major Repairs Allowance as a proxy for depreciation and no material differences were identified. We undertook sample checks to confirm that calculations of HRA depreciation were correct. | <ul style="list-style-type: none"> The depreciation on Council dwellings charged in the financial statements has been appropriately calculated. |

| Issue | Audit areas affected | Work completed | Assurances gained |
|---|--|--|---|
| Accounting for Private Finance Initiative | Property, plant and equipment | <ul style="list-style-type: none"> We have reviewed and tested the accounting entries for PFI school schemes and the accounting for lifecycle costs. | <ul style="list-style-type: none"> Lifecycle costs are charged in the account based on the schedule of costs set out in the financial models for each of the PFI arrangements and have been appropriately accounted for in the financial statements. |
| Valuation of Bristol Port Company | Investments | <ul style="list-style-type: none"> We reviewed and considered the appropriateness of valuations obtained at the year end. We considered the impact on the accounts of the redemption of preference shares at year end. | <ul style="list-style-type: none"> £8.5m of preference shares were redeemed at 31 March as they have matured, and the remaining year end long term investment of £2.5m is no longer material in the context of the City Council's accounts. |
| Service concession arrangements | Property, plant and equipment | <ul style="list-style-type: none"> We reviewed work performed by the Council on other non-PFI contracts, such as the provision of residential care, children's services and waste contracts to ensure that they were appropriately accounted for under IFRIC 12, Service Concession Arrangements. We have reviewed work performed by the Council on accounting for schools and have reported separately on this matter later in this report. | <ul style="list-style-type: none"> One embedded lease has been identified in a waste contract and this has been brought onto the balance sheet and accounted for as a finance lease. For schools increased disclosures were requested in the PPE note to clarify the position at the Council pending further guidance from CIPFA. |
| Gains and losses | Comprehensive Income and Expenditure Statement | <ul style="list-style-type: none"> We have reviewed the conversion to IFRS and this has resolved previous matters relating to the statement of total realised gains and losses. | <ul style="list-style-type: none"> No further work necessary. This matter has been completed. |

| Issue | Audit areas affected | Work completed | Assurances gained |
|-----------|-------------------------------|--|--|
| Valuation | Property, plant and equipment | <ul style="list-style-type: none"> We have substantively tested fixed asset transactions, including additions, disposals, depreciation, assets under construction, expenditure not adding value, and the PFI schemes. We have also reviewed revaluation and impairment work undertaken by the Council's internal valuation department. | <ul style="list-style-type: none"> A number of issues were identified during our work on PPE. We describe these later in this report. Our work in these areas has identified a number of classification and disclosure amendments, which have subsequently been processed by management. We have gained satisfactory assurance that the accounting entries processed for fixed asset transactions are appropriate and supporting evidence is available and have made recommendations to improve the process going forward. |

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- outstanding bank and financial institution confirmation letters
- obtaining and reviewing the Letter of representation
- review of the revised version of the Annual Governance Statement
- reviewing post balance sheet events, up to the signing of the accounts.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 30 September 2011.

In addition, finance and other staff dealt promptly with our audit queries and provided responses to requests for additional information. We did however experience difficulties with the details of some papers provided from departments across the Council. We will work with officers to improve the content of working papers for future years. That said staff across the Council were, as we have found in previous years, helpful and committed to helping us obtain the information we needed.

A number of issues arose during the course of the audit, which whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Matters arising from the financial statements audit

We were presented with draft financial statements and an electronic working papers file on 24 June 2011, in advance of the 30 June 2011 deadline. The financial statements have, subject to suggested amendments, been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS). A great deal of work has been done to prepare the accounts and they were of a good standard, and included good disclosures. We have suggested and discussed a number of disclosure additions and changes following our work. Where agreed these changes have been made to the accounts.

We prepare an arrangements letter each year. This sets out the key audit evidence we require to perform the audit for each key area of the accounts. The arrangements letter we provided in April 2011 was not distributed to the other officers in the finance teams or to relevant teams across the Council and we believe this had an impact on the progress of the audit work. We will work with officers over the coming year to ensure that all staff are aware of the importance of providing good detailed working papers that reconcile to the accounts and notes, and are explained, for us to complete our work more efficiently and to limit the impact on their time. We need to obtain significant information each year to support the accounts and enable us to perform the audit, and change our approach periodically to avoid predictability, and there have been changes particularly this year with the change to IFRS.

Property, Plant and Equipment

There are a number of matters to bring to your attention in relation to property, plant and equipment.

Infrastructure assets – Docks indeterminate assets

£3.7m of infrastructure assets (of which the total value is £86.5m) relates to "indeterminate assets within the curtilage of the City Docks" (not the lock gates or quay side). Our view is that if these assets are indeterminate they should be impaired and the value written off. We have agreed with officers that these will be fully impaired in 2011-12. We have taken this to the summary of unadjusted differences.

In addition, we noted that that of the other infrastructure assets only one asset is depreciated over 100 years. Others including the Bristol Docks (£24.58m) are not depreciated. The accounting policy for infrastructure assets states that "for depreciation purposes, a useful life of 25 years has been applied". We have requested that the accounting policy and the reference to this in Note 12 for depreciation of these assets is amended to clarify the audit treatment adopted.

Surplus assets – schools

Included in "surplus assets" is an amount of £2.8m which relates to schools removed from the fixed asset register (FAR) in 2007-08 as sales were expected at that year end. These sales did not happen and these assets are held on a manual register and form part of the reconciliation to the accounts to the FAR. They have not been depreciated since they were removed. We can accept this on the grounds of materiality, but recommend that the assets are re-entered onto the FAR and the depreciation calculation is brought up to date if the sales are no longer expected.

Depreciation of assets

The Council does not provide for depreciation on assets acquired in the year. The Code and IAS16 (para55) requires "that depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in then manner intended by management".

The Council has not historically accounted for depreciation in the year of acquisition of an asset as the capital programme is finalised in March. Depreciation charges are agreed with departments in April each year for the coming year, based on the capital programme and exclude any additions planned for the coming year. We recognise that significant work would be involved in working back through the year to determine when each job/scheme was actually finished and "available for use". All additions, that "add value", are dated "31 March" and added to the FAR at this date.

Officers have provided confirmation that any adjustment would be immaterial to the accounts year on year. We can accept this on the grounds of materiality but recommend that a calculation is performed each year, taking into account year on year movements, and provided with the audit working papers to ensure no material adjustment arises.

Component accounting

The Council applies component accounting (i.e. where major components of the asset are depreciated separately over their respective estimated economic lives) to all individual assets with a net book value in excess of £5 million (and only where components are evident and the impact of component accounting is considered material to the accounts).

Officers prepared a detailed paper on the approach to component accounting at July 2010. The paper stated that officers "would also review its asset base "by category" to consider whether component accounting for certain groups of assets should be undertaken on a 100% basis (prospectively) regardless of materiality. This could be desirable if there are significant benefits for the user and the additional costs of implementation and ongoing recording do not outweigh these benefits". This planned review has not been undertaken.

While we can accept the treatment for 2010-11 on the grounds of materiality we recommend that a further review is undertaken during the year, and also request that an update paper on this subject is prepared at each year end.

Investment properties

Our work on investment properties identified a potential asset held as an investment property that does not meet the criteria for an investment property, and should be classified as "operational assets". The Bamfield Constellation site was acquired in February 2007 when SWRDA agreed terms with Constellation for the Council to acquire the site for £8.2m, following the decision by Constellation to relocate its bottling and distribution activities to Avonmouth. This would assist Constellation in relocating and keeping jobs in the Bristol area. The site was acquired by BCC with a grant agreement by SWRDA, and details were approved by Cabinet on 22 March 2007. The purchase of the site by BCC was controlled by a SWRDA grant agreement which runs to 31st March 2017. In effect BCC own the freehold interest of the site but under the agreement with SWRDA are only holding/managing the site for them until Constellation relocate. Constellation have been granted a 5 year contracted out lease of the premises at nil rent until their new premises have been developed. Under IPSAS 16 this does not meet the criteria of the standard and the asset should be moved to operational assets. We have included this item in appendix B as an unprocessed adjustment of £8.2m to other land and buildings.

Schools

CIPFA adopted the requirements of IFRIC 12, Accounting for PFI and similar contracts in the 2009 SORP for all PFI schemes and other similar contracts, and has carried this forward to the 2010 Code. Whilst, nationally, local authorities are clear as to the status of PFI schemes, it was apparent that authorities have thought less about other contracts that may fall under the scope of these requirements. The Council has undertaken a review and have accounted for an embedded lease for a waste contract.

The adoption of IFRIC 12 also highlighted the inconsistency in treatment for Foundation and Voluntary Aided and Controlled schools. Some authorities currently account for these schools as part of Council assets whereas others do not. It is considered that where control of land and buildings have passed to the trustees or foundation body of the school, they should be derecognised. IAS16, Property Plant and Equipment also requires consideration of whether future economic benefits and or service potential have passed from the body. We have asked the Council to undertake a review in this area and this is ongoing. The Accounts disclose that "The Authority has a number of different types of schools operating e.g. Community, Foundation, Trust, Church, and Academies etc. Where a school changes status during a financial period the Authority reviews the substance of the transaction (e.g. terms of leases, employee status etc) to determine whether the Authority retains "control" of the school. If control is retained, the school remains "on balance sheet" for the Authority, if control is lost the assets are transferred to the new controlling body. The Authority has determined that for its Trust, Foundation, Academy and certain Church schools, it no longer has control and therefore these are off balance sheet". Four schools achieved Trust status on 1 April 2010. The relevant freehold property amounting to £31.6 million was transferred from the Authority to the schools for £nil consideration. This is shown in the property, plant and equipment note 12 to the Accounts under the line Derecognition - other (majority from Assets Under Construction).

CIPFA has recently consulted on this matter due to the continued inconsistencies between councils and we have suggested that increased disclosures are made to this year accounts to clarify the Council's position.

We will work with the Council over the next year to ensure that the accounting for such assets are fully reviewed and the relevant information documented

Segmental Reporting

Under the requirements of the Code based on IFRS, councils are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Council, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Council's chief operating decision maker ("CODM"), to assess the segment's performance and allocate resources. The Council disclosed 5 operating segments in its 2010-11 financial statements at Note 30.

We have audited the adjustments from the budget report and have made suggestions for further disclosures given the significant figures included in the reconciliation from the results reported to Cabinet to those reported in the Accounts to make the disclosures more understandable for the reader.

We have reviewed the disclosure presented in the accounts against the information presented to the Council's Cabinet regarding financial performance and note that the information is consistent, but of a high level. We are satisfied that the disclosures made comply with the requirements of the Code.

Transition to IFRS

As previously reported, the Council commenced its work on transition to IFRS early and we were able to review the arrangements for transition and key accounting changes prior to year end. We would like to formally recognise the work done by the finance team in this area and their approach to working with us at an early stage to review the work done prior to the main audit.

Avon Pension Fund – assets

We have been informed by the auditor of the Avon Pension Fund that the share of pension fund assets allocated to the City council should be £14.5m higher (at £1,083m) than the level notified to the Council by the Actuary. Whilst we are satisfied that this amount is not adjusted in the financial statements, we are obliged to report it to you. We have included this as an unprocessed adjustment to the accounts in appendix B.

Evaluation of key controls

Internal Controls

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 has identified the following control issues, additional to those already identified by internal audit and those reported our Interim Report, that present a risk to the accuracy of the financial statements.

Reconciliations of the PPE notes to supporting papers

Our audit of the PPE note to the accounts was a complex process again this year. Problems resulted from the separate responsibilities for HRA and General Fund and the number of people involved in providing the information (Corporate Finance, HRA team), and also the reliance on the Capital Accountant by the Corporate finance team. The detailed spreadsheets provided to us are complex, and we shall discuss how they might be further improved with officers.

While our subsequent testing did not identify any material matters we recommend that this system is reviewed and that comprehensive procedures notes are prepared for future use.

Accounting for revaluation and impairments

The Valuation certificate prepared for the audit was issued late, and was subsequently revised following audit queries. The majority of the other items in the Consolidated Balance sheet included in the Valuation Certificate did not easily reconcile to the accounts, but we were able to accept the final figures on the grounds of materiality. We recommend that a full review of the information included in the certificate is undertaken and fully reconciled to the PPE note in the accounts for future years.

Estimates and judgements

A new auditing standard came into effect this year and this was communicated to management during the planning and controls process. ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures introduced greater rigour and scepticism into the audit of accounting estimates. As a consequence there is a substantial increase in the number of

requirements and guidance compared to the previous practice. This has a significant impact on current audit practice, particularly where the entity has material estimates with significant estimation uncertainty as is the case at the Council.

We made a number of recommendations to significantly increase the disclosure relating to estimates and judgements in the accounts. This is a further area in which we will work with officers over the current year to improve the transparency of the accounts.

Financial reporting

Revenue monitoring reports are presented to both the Cabinet and the Resources Scrutiny Committee and show the forecast year end net revenue expenditure position by directorate and for the Council as a whole. The outturn is now reconciled to the Comprehensive Income and Expenditure (CIES) Account in the financial statements in Note 30, Amounts reported for Resource Allocation Decisions as noted above.

As part of our audit we undertake substantive analytical review procedures on the Income and Expenditure statement. In the quarterly Cabinet reports, directorates report against a Net Expenditure budget. Each of the variances is explained at a high level and normally by an activity such as in CYPS, "Childcare placements". We recommend that for the purposes of management accounting and the annual accounts, further working papers are prepared by each directorate to support the high level reporting to Cabinet, and Scrutiny.

Journals

Documentation supporting journals should be strengthened. Our testing revealed that some journals did not have sufficient support to explain and corroborate the reason for the journal and a large number of individuals are able to enter journals onto the system, the majority of the sample of journals we reviewed being self-authorised. Staff entering journals should receive training to understand what constitutes supporting information, and journals should be authorised by someone senior to and independent of the preparer to perform an effective control. Consideration should be given to how authorisation could be implemented in the future.

Review of IT

We performed a review of the general 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. There was one control weakness, on which we have made recommendation in our Interim report:

- we noted that there is no dedicated Intrusion Detection System (IDS) to alert the Council to instances of unauthorised access to its network. Over the coming months the Council will be reviewing both its financial systems and its overall infrastructure. In this context, and given that the industry standard PCI DSS requirements, we consider the incremental risk posed by lack of intrusion detection systems too small to justify investment at this point. Management will consider the need for intrusion protection as part of a significant review of overall information security risk in the next three months.

Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in March 2011 concluded that the Council met these requirements.

We consider that the Council put in place sufficient resource to deliver the internal audit plan and has an appropriate risk based methodology, which is comparable to other unitary authorities. We also considered whether the Council had sufficient flexibility in its resource to respond adequately to unplanned risks arising in the year. We are satisfied that the existing arrangements are sufficient to achieve this. We have, however, noted that the internal audit function has experienced pressures during the year due to additional resource being required for reactive fraud investigations work. There has been slippage on the planned work to be conducted and Council has reviewed the work planned in light of the resources available.

We draw on this work in forming our overall Value for Money (VfM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This work also supports our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

Where internal audit has identified control issues, or where there has been no internal audit coverage we have not placed reliance on internal controls and have taken a more substantive based audit approach. This means that we place more reliance on analytical procedures and detailed transaction testing. Where issues arising from our audit work have been identified these are reported as part of our key findings from the audit. Where we have identified additional internal control issues, not previously reported by internal audit or other sources, we have made recommendations for improvement (Appendix C).

Management of the risk of fraud

We have sought assurances from the Corporate Manager – Finance, the Head of Internal Audit and the Chair of the Audit Committee in respect of processes in place to identify and respond to the risk of fraud at the Council. We have also considered the work of Internal Audit with respect to fraud. From these enquiries we have established that those charged with governance have sufficient oversight over these processes to give them the assurances they require in regard to fraud.

In the course of our accounts audit work, we did not identify any evidence of fraud or previously undisclosed control weaknesses which might undermine the Council's process for mitigating the risk of fraud.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with our knowledge of the Council.

We reviewed the draft AGS and considered the document to be satisfactory in terms of content, a fair representation of Council operations during the year and in line with the Code. We concluded that although there were some areas for improvement, the overall arrangements were satisfactory and appropriate to ensure that management actions are reviewed effectively.

Public questions

We received no questions from the public in respect of the financial statements for the year ended 31 March 2011.

Next steps

The Audit Committee is required to approve the financial statements for the year ended 31 March 2011. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

3 Value for Money

Value for money conclusion

The Audit Commission Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For 2010-11 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In order for us to provide an unqualified conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

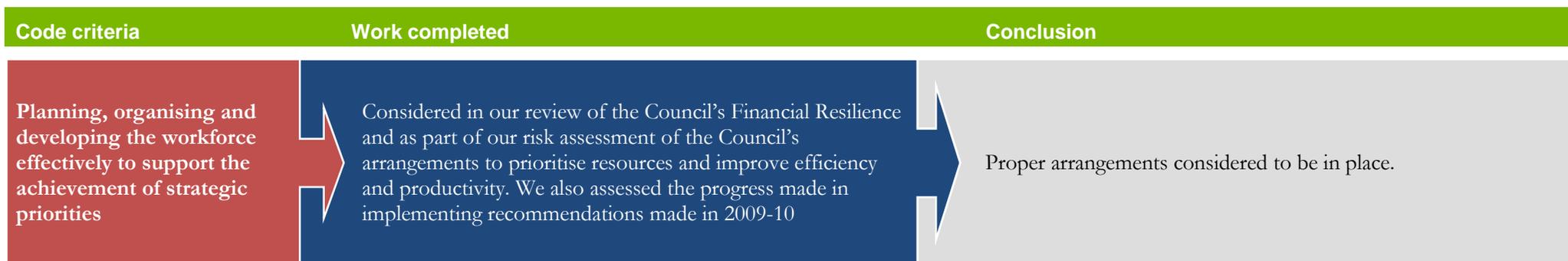
We expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources. However, we would like to draw attention to the recommendations raised in our review of Corporate Performance Reporting and Agenda for Change, a summary of which is provided on pages 16 and 17.

Programme of work - review of proper arrangements

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are detailed overleaf:

| Code criteria | Work completed | Conclusion |
|--|---|---|
| <p>Planning finances effectively to deliver strategic priorities and secure sound financial health</p> | <p>Reviewed as part of our financial resilience work and from our overall review of Council performance against its strategic targets</p> | <p>Proper arrangements considered to be in place.</p> |
| <p>Having a sound understanding of costs and performance and achieving efficiencies in activities</p> | <p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity. Our review of Bristol's Change Agenda also considered progress achieved through the business change programme</p> | <p>Proper arrangements considered to be in place.</p> |
| <p>Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people</p> | <p>Reviewed as part of financial resilience work and our audit of the financial statements</p> | <p>Proper arrangements considered to be in place.</p> |
| <p>Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money</p> | <p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity. We have also considered the progress made in implementing recommendations made in 2009-10</p> | <p>Proper arrangements considered to be in place.</p> |

| Code criteria | Work completed | Conclusion |
|---|---|--|
| Producing relevant and reliable data and information to support decision making and manage performance priorities | Reviewed as part of our work on Corporate Performance Reporting and Bristol's Change Agenda. We have also considered arrangements to prioritise resources and improve efficiency and productivity | Proper arrangements considered to be in place. |
| Promoting and demonstrating the principles and values of good governance | Considered in our review of the Council's Financial Resilience, Bristol's Change Agenda and review of the AGS | Proper arrangements considered to be in place. |
| Managing risks and maintaining a sound system of internal control | Considered in our risk assessment and our review of Financial Resilience and review of the AGS | Proper arrangements considered to be in place. |
| Making effective use of natural resources | Considered as part of our risk assessment of the Council's arrangements to make effective use of natural resources | Proper arrangements considered to be in place. |
| Managing assets effectively to help deliver strategic priorities and service needs | Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity and the progress made in implementing recommendations made in 2009-10 | Proper arrangements considered to be in place. |



Matters arising from the review of value for money

In addition to our work on the specified criteria we undertook detailed work to support our VFM conclusion. We have prepared separate reports in respect of this work and these are presented individually to the Audit Committee. The four local reports were:

- Bristol's Change Agenda reported in September 2011
- review of Corporate Performance Reporting reported in September 2011
- Financial Resilience review to be reported in November 2011 and
- progress report on recommendations made on our 2009-10 VFM reports.

We identified these areas in our audit plan which was presented to you in January 2010. We have agreed the scope of each project with management prior to commencing the work. The purpose of each piece of work was to provide assurance on the arrangements in place and identify any areas for improvement.

These reports included detailed findings and recommendations, we have only included a short summary of our key findings from this work within this report.

Review of Bristol's Change Agenda

We considered the progress made to implement the recommendations made in 2010-11, including the New Ways of Working programme and phase 1 of the Shared Transactional Service, and the programmes in place within the Health and Social Care Directorate.

We concluded that the change agenda continues to facilitate organisational change and deliver some cashable savings, but as yet the Council has still to demonstrate that it can deliver significant benefits through this approach.

The Council's Strategic Options Delivery Board has responsibility for managing and prioritising the change agenda. The Board's role is developing and due to capacity restraints has to focus on those areas likely to be most beneficial. However, these priorities have to be in line with the strategic priorities of the Council, which are currently being developed.

The overall Governance arrangements have been strengthened and a Benefits Realisation Board (BRB) has been introduced. The BRB should ensure that all the programmes are delivering both cashable and non-cashable benefits and outcomes.

The New Ways of Working programme was considered in detail in 2010. Since that review the Council has decided to issue a new business case, the Council aims to issue this in November 2012.

During periods of significant change it is important that the effect on front line services is understood, managed and therefore minimised. We identified that the Council should ensure it actively monitors the effect of change on service delivery to ensure the impact is minimised.

The review raised concerns that the Council does not fully understand what has been achieved through the Social Care Reform Grant. We recommended that the Council should establish the outcomes achieved, both to demonstrate value for money and to ensure clarity around those elements subsumed within the new programme. In addition, we recommended that a robust business case should be developed for the new Health and Social Care transformation programme.

Review of Corporate Performance Reporting

Our 2010-11 Annual Audit Letter: raised concerns that the Council should improve its corporate performance management arrangements to ensure both the Strategic Leaders and Cabinet fully understand how the Council is performing. In order to address this concern the Council introduced Directorate scorecards in August 2010.

These scorecards were not originally intended for Member use and review and primarily focus on poor performance.

Although the scorecards provide a base from which performance reporting could be improved and have merits at Directorate level they do not provide a balance view of how the Council and Directorates are performing.

We recommend that the Council develops a more balanced approach, which would consistently provide progress on priority areas which are linked to the strategic objectives, and improves the design and content of the scorecards.

Financial resilience review

Our work in relation to financial resilience is currently being completed. We have performed sufficient work in order to conclude on the adequacy of the Council's arrangements and are finalising this in order to provide more detailed feedback to the Council in relation to those arrangements.

Based on the work we have undertaken, we have identified that there are adequate arrangements. However, we recommend that the Council should improve its financial planning arrangements and publish a robust Medium Term Financial Plan which sets out the Council's plans to address the budget shortfall for the next 3 to 5 years. In addition, the Council should ensure it regularly monitors and manages delivery of the 2011-12 planned savings, not just the actions which are expected to result in a saving. Consequently, we have concluded that the Council has adequate arrangements in place to secure VFM and is financially resilient for the future. We will report our detailed findings to the Audit Committee in November 2011.

Progress report on VFM recommendations made in 2009-10

Our work is currently being completed and includes recommendation made in relation to four reports:

- VFM Conclusion 2009-10
- Financial Standing
- Follow-up of Capital Project Management Arrangements
- Asset Management Arrangements.

The rate of progress is varied and as a result a number of recommendations still require completion.

A The reporting requirements of ISA 260

Purpose of report

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the directors and auditors

The directors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider

necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit Committee that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit Committee.

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

| | £ |
|-----------------------|---------|
| Audit services | |
| Statutory audit | 455,410 |

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW.

Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

B Audit adjustments

Adjustment type

Misstatement - A change in 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 in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the financial statements

| Adjustment type | £000 | Account balance | Impact on financial statements |
|-------------------------------|------|---|--|
| Misstatement | | No material adjustments needed | |
| Disclosure | N/A | PPE note | Increased disclosure in relation to Foundation, Voluntary aided and Voluntary Controlled schools |
| Disclosure | N/A | Accounting policy in relation to infrastructure assets | Improved disclosure of estimated useful lives |
| Disclosure | N/A | Estimates and judgements | Improved disclosure of areas of estimate and judgements within the financial statements |
| Disclosure and classification | N/A | A number of other disclosure and classification adjustments | All made to improve disclosure within the financial statements |

Unprocessed adjustments to the financial statements

| Adjustment type | £000 | Account balance | Impact on financial statements |
|-----------------|--------|-----------------------------|--|
| Misstatement | 3,700 | PPE – Infrastructure assets | <p>This relates to Indeterminate assets within the curtilage of the City Docks not being impaired as they cannot be identified.</p> <p>Infrastructure assets and Capital adjustment account are overstated by £3.7m. There is no impact on the General Fund or Council Tax</p> |
| Classification | 8,200 | Investment properties | <p>This relates to the classification of the Bamfield Constellation site being categorised as an investment asset instead of an operational asset.</p> <p>Investment properties are overstated by £8.2m PPE- Other land and buildings are understated by £8.2m There is no impact on the General Fund or Council Tax</p> |
| Misstatement | 14,500 | Pension asset | <p>This relates to the Council allocation of the assets of the Avon Pension Fund being higher than the level notified to the Council by the Actuary.</p> <p>Pension Asset is understated by £14.5m Pension Reserve is understated by £14.5m</p> |

C Action Plan

| Rec No | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|--------|--|----------|---|---|
| 1 | We recommend that the £2.8m relating to schools which was removed from the fixed asset register in the expectation of sale, but which have not been sold are re-entered onto the Register if sale is no longer anticipated (see page 8). | M | Agreed | Principal Accountant (Capital Finance) 2011/12 financial year |
| 2 | We recommend that the Council, annually, considers the impact of depreciating assets on a financial year basis, as opposed to from date of acquisition as required by the Code (see page 8). | M | Capital investment will be reviewed at year end and, where assets have been acquired and/or have become operational, depreciation of the assets will be recalculated. This will be reflected in the financial statements, where material. | Principal Accountant (Capital Finance) 31 March 2012 |
| 3 | We recommend that the review of the asset base by category to consider the cost and benefit of applying component accounting, as anticipated in July 2010, be undertaken (see page 8). | M | Agreed | Head of Valuation Practice/Senior Portfolio Management Officer 2011/12 financial year |
| 4 | We recommend the Council reviews its policy and practice in relation to journals, to determine whether the number of staff able to self-authorise and post journals to the finance system is appropriate, and provides adequate control. (see page 11) | H | Consideration will be given to this issue in conjunction with Internal Audit, in relation to supporting information for individual journals and possible improvements in controls. | Service Manager, Corporate Finance/Chief Internal Auditor Implementation subject to outcome of discussions with Internal Audit |
| 5 | We recommend that Directorates prepare more detailed working paper analyses of variances against net expenditure budgets to support the (appropriate) high level reporting to Cabinet. (see page 10) | M | Arrangements for the provision of more robust variance analysis of net expenditure against budget to be developed, subject to further discussions with the external auditor. | Service Manager, Corporate Finance To be implemented for yearend reports. |

| Rec No | Recommendation | Priority | Management Comments | Implementation date and responsibility |
|--------|---|----------|---------------------|--|
| 6 | We recommend that the finance team and auditors work together to improve the information needs and documentation requirements for each annual audit cycle. (see page 7) | H | Agreed | Service Manager, Corporate Finance |



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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement.

The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP



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Reply to Peter Robinson
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Our ref
Your ref
Date 30/9/2011

Dear Sirs

Bristol City Council Financial Statements for the Year Ended 31 March 2011

This representation letter is provided in connection with the audit of the financial statements of Bristol City Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

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.

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.

Resources

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The Council House, College
Green, Bristol BS99 7BL

Peter Robinson
Service Director, Finance

Website
www.bristol.gov.uk



2005-2006
Promoting Racial Equality
2006-2007
*Transforming the Delivery of
Services Through Partnerships*
2007-2008
*Healthy Schools
Preventing and Tackling
Anti-social Behaviour*



- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 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).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- viii All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- ix We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, attached to this letter, as they the reasons noted on the schedule. The financial statements are free of material misstatements, including omissions
- x Except as stated in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council have been assigned, pledged or mortgagedthere are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- xi We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xii 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.

Information Provided

- xiii We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.

- xiv 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.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xviii We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- xix We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xx We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Other statements

- xxi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Yours faithfully

Signed on behalf of Bristol City Council.

Name:
Position: Chair of Audit Committee
Date: 30/9/2011

Name:
Position: Chief Financial Officer
Date: 30/9/2011