

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

28 January 2011

Report of: Strategic Director - Corporate Services

Title: Grant Thornton's Audit Plan 2010-11

Ward: Citywide

Officer presenting report: Richard Powell, Chief Internal Auditor

Contact telephone number: 0117 92 22448

RECOMMENDATION

The Audit Committee note, and comment as appropriate, on Grant Thornton's Audit Plan for 2010-11.

Summary

Attached to this report is the Grant Thornton Audit Plan 2010-11, which sets out the work they will carry out in discharging their responsibilities to give an opinion on the Council's financial statements and an conclusion on the Council's arrangements for achieving value for money.

The key considerations set out within this report are:

- This plan sets out Grant Thornton's responsibilities under the Code of Audit Practice.
- The plan includes an assessment of current local risks relevant to the financial statements and the proposed audit response to these risks.

- The plan reflects the outcome of the audit for 2009-10, and focuses audit effort into areas where specific audit issues were identified, together with the relevant areas under the CIPFA Code of Practice on Local Authority Accounting 2010-11 (based on International Financial Reporting Standards (IFRS), in particular accounting and accounts preparation under IFRS, depreciation of council dwellings, accounting for PFI projects, and valuation of investments.

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 consulted with the Strategic Director - Corporate Resources and the Service Director (Finance) before finalising the Plan.

External: None.

1 Introduction

- 1.1 Grant Thornton UK LLP presented its 2010-11 fee letter to the Audit Committee on 16 April 2010. This provided members with a short five page letter setting out at a high level the areas that the auditors anticipate covering during the 2010-11 value for money conclusion work, and the proposed fee. Since the fee letter was issued, a new approach to local VFM work has been introduced by the Audit Commission. As the audit of the 2009-10 financial statements is now complete, an audit plan including accounts risk assessments and initial VFM risk assessments has been prepared and is attached for members' consideration.
- 1.2 Grant Thornton's partner, John Golding, the appointed auditor 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 Audit Plan 2010-11.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Bristol City Council

Audit plan 2010/11

January 2011



An overview of your 2010/11 Audit Plan

This is our audit plan for the financial year 2010-11 for Bristol City Council (the Council). It sets out the work that we will carry out in discharging our responsibilities to give an opinion on the Council's financial statements and a conclusion on the Council's arrangements for achieving value for money.

We set an indicative fee in March 2010. In setting this fee, we assumed that, whilst the transition to IFRS is a significant change and challenge, the general level of risk in relation to the audit would not be significantly different from that identified for 2009/10. Following the completion of the 2009/10 audit we have updated our accounts audit risk assessment.

See
Accounts risk
assessment

In August 2010 a new approach to local Value for Money audit work was introduced by the Audit Commission. From 2010/11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission.

See
Value for Money audit

We have made one change to our main audit team, to cover maternity leave, which otherwise remains unchanged from 2009/10. As in previous years, we will use specialists from across Grant Thornton to support our work and ensure that you are getting the required levels of expertise from us.

See
Engagement team

We have used the Audit Commission scale of fees work programme for 2010/11 to calculate your proposed audit fee. The new approach to local VFM work has had an impact on the fee.

See
Audit fee

You will receive a number of reports and plans from us throughout the year which will provide you with the detailed conclusions of our work culminating in the issue of our Annual Audit Letter to the Council.

See
Outputs and timeline

We have considered our independence and objectivity in respect of the Audit and do not believe there are any matters which should be brought to your attention. We comply with the Audit Commission's requirements in respect of independence and objectivity

See
Appendix A

Accounts risk assessment

Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2010/11 accounts of the Council. The plan is based on our risk-based approach to audit planning and is based on our assessment of the potential business and audit risks that need to be addressed by our audit and the controls the Council has in place to mitigate these risks.

The Council's responsibilities

The Council's accounts are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:

- ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintain proper accounting records; and
- prepare accounts, which give a true and fair view of the financial position of the Council and its expenditure and income in accordance with International Financial Reporting Standards.

Our responsibilities

We are required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the Council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.



Accounting risks and planned audit response

Table 1 below summarises the results of our initial risk assessment of significant financial risks facing the Council and our planned response.

Table 1: Accounting risks and planned audit response

Key audit risk	Audit areas affected	Audit approach
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"> Specialist technical support will be made available to the Council as required. We have already concluded that the Council is making good progress in its transition to IFRS, engaging an independent consultant to assist it in its preparations. It has converted its opening balance sheet at 1 April 2009. We will review the implications of any developing issues through reference to IFRS guidance and the finalised IFRS Code and discuss with the Council accordingly.
Financial performance pressures	All areas of the financial statements	<ul style="list-style-type: none"> We will review the Council's financial performance for the year against its agreed budget. We will consider the use of general reserves during the year.
Depreciation of Council dwellings	Property, plant and equipment	<ul style="list-style-type: none"> We will review arrangements put in place during the year to ensure the fixed asset register correctly calculates depreciation on council dwellings. Last year the register did not reflect the range of useful economic lives for different types of dwellings. We will undertake sample checks to confirm the correct calculation.

Key audit risk	Audit areas affected	Audit approach
Accounting for Private Finance Initiatives	Property, plant and equipment	<ul style="list-style-type: none"> • We will review detailed accounting entries with respect to PFI school schemes. • We will review information in relation to the actual lifecycle expenditure of the schemes to ensure that it is appropriately reflected in the accounts.
Valuation of Bristol Port Company	Investments	<ul style="list-style-type: none"> • We will review and consider the appropriateness of valuations obtained at the year end. • We will consider the impact on the accounts of the planned redemption of preference shares at the year end.
Service concession arrangements	Property, plant and equipment	<ul style="list-style-type: none"> • We will review 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 are appropriately accounted for under IFRIC 12, Service Concession Arrangements.
Gains and losses	Comprehensive income and Expenditure Statement	<ul style="list-style-type: none"> • In previous years the accounts have included an amount for "other balances" within the Statement of Total Recognised Gains and Losses under UK GAAP. While this statement is no longer relevant, under IFRS the transactions will be included in the Comprehensive Income and Expenditure Statement. We will review the entries to assess the level of any remaining unallocated items.

Accounts audit - approach

Audit approach

We will:

- work closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently
- plan our audit on an individual task basis at the start of the audit, and timetables agreed with all staff involved.
- consider the materiality of transactions when planning our audit and when reporting our findings.

In summary our audit strategy comprises:

Planning	Updating our understanding of the Council through discussions with management and a review of the management accounts
Control evaluation	<ul style="list-style-type: none"> • Reviewing the design and implementation internal financial controls including IT, where they impact the financial statements • Assessing audit risk and developing and implementing an appropriate audit strategy • Testing the operating effectiveness of selected controls • Assessing internal audit against the CIPFA Code of Practice
Substantive procedures	<ul style="list-style-type: none"> • Reviewing material disclosure issues in the financial statements • Performing analytical review • Verifying all material income and expenditure and balance sheet accounts, taking into consideration whether audit evidence is sufficient and appropriate
Completion	<ul style="list-style-type: none"> • Performing overall evaluation • Determining an audit opinion • Reporting to Audit Committee

Accounts audit - other issues

Other issues

Annual Governance statement

As part of our work on the accounts audit, we will review the Annual Governance Statement (AGS) to determine if it is consistent with our knowledge of the Council.

Whole of Government Accounts

We will also review the Whole of Government Accounts (WGA) consolidation pack for consistency with the Council's accounts

Elector challenge

The Audit Commission Act 1998 gives electors certain rights:

- the right to inspect the accounts
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form a decision on the elector's objection. The additional work may be significant and could result in the requirement to seek legal representations on the issues raised. The costs incurred in responding to any questions or objections raised by electors are not part of the audit fee. In the event of costs being incurred as a result of elector's objections we will discuss these with the Council and, where appropriate, charge for this work in accordance with the Audit Commission's fee scales.

Certification of Grants and Returns

In addition to our audit of the Council's financial statements and Value for Money, we are required to certify grant claims and returns above predetermined thresholds.

In carrying out work in relation to grant claims and returns, Grant Thornton UK LLP acts as an agent of the Audit Commission, on behalf of the grant paying bodies. The work that the auditor is required to undertake is specified in a Certification Instruction, issued by the Audit Commission for each scheme, following discussion with the grant paying body. As agents of the Audit Commission we are required to recover, in respect of each grant claim and return, a fee that covers the full cost of the relevant work undertaken. These rates are based on the hourly rates for certifying claims and returns set out in the Audit Commissions 'Work programme and scales of fees 2010-11.'

Prior to the commencement of our work we will issue a grants plan and report in full to the Council on conclusion of our certification work.

National Fraud Initiative (NFI)

The Council participates in the National Fraud Initiative, the Audit Commission's data-matching exercise designed to prevent and detect fraud in public bodies. We will review the Council's progress and actions in following up the matches identified.

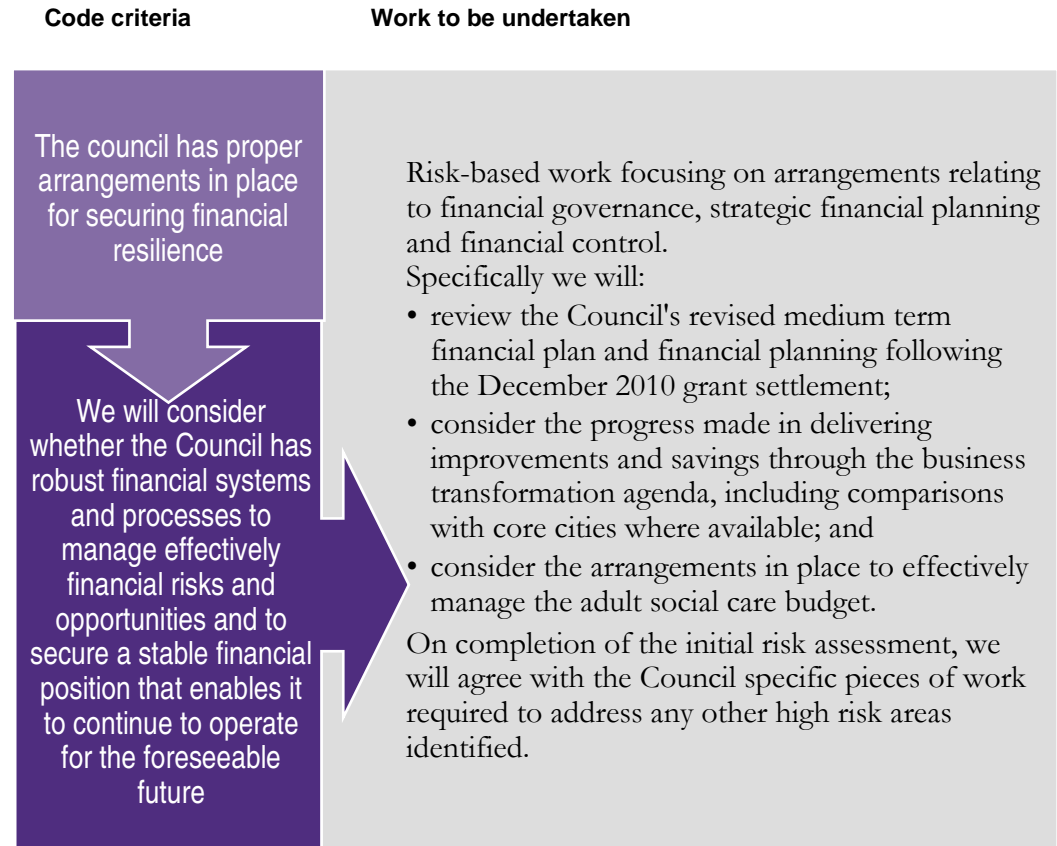
Value for money audit

Introduction

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

2010/11 VFM conclusion

Since we issued our indicative fee letter, a new approach to local Value for Money audit work has been introduced by the Audit Commission. From 2010/11 we will give our value for money conclusion based on two reporting criteria specified by the Audit Commission:



Value for money audit

Code criteria

Work to be undertaken

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

We will consider whether the Council is prioritising its resources within tighter budgets

Risk-based work focusing on arrangements for prioritising resources and improving productivity and efficiency.

Specifically we will:

- consider how the Council is monitoring its corporate performance, through the introduction of corporate performance scorecards, including comparisons between Directorates; and
- consider how the Council is managing the risk relating to interim managers within the Adult Social Care Directorate.

On completion of the initial risk assessment, we will agree with the Council specific pieces of work required to address any other high risk areas identified.

We will tailor our VfM work to ensure that as well as addressing our high risk areas, it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for Officers and Members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed with Officers.

The results of all our local VfM audit work and key messages will be reported in our Report to Those Charged with Governance (ISA 260 report) and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.



Engagement team

Your main audit team is based in Bristol and are all public sector specialists. However, we operate as a national practice, coordinating the work of all our offices to ensure that new ideas, good practice experiences and services are developed and disseminated to all, irrespective of location.

We have made one change to the team, introducing Claire Thomas, while Julie Masci is on maternity leave.



John Golding
Engagement Lead
T 0117 305 7802
E john.golding@uk.gt.com

John is the Council's Engagement Lead, bringing his extensive local authority expertise to the Council. John will be a key contact for the Chief Executive, the Director of Finance, other senior Council Officers and the Audit Committee.

John is responsible for the overall delivery of the audit including the quality of output and, signing the audit reports and conclusion



Claire Thomas
Engagement Manager
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E claire.thomas@uk.gt.com

Claire is responsible for the audit of the financial statements. She is the main contact for discussing and resolving technical accounting issues that may arise, and liaises with Internal Audit to minimise duplication of work. Claire reviews the quality of audit outputs and ensures accuracy of reporting prior to presenting plans and reports to the Council's officers and Members.



Ginette Beal
Performance Manager
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Ginette is the Trust's Performance Manager responsible for the work undertaken to support the Trust's value for money conclusion. This includes the completion of the local value for money risk assessment and specific reviews, as required.



Julian Stanford
In-charge auditor
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Reporting to Claire, Julian is responsible for the performance of the audit fieldwork and day-to-day liaison with the Council's finance department. Julian will be supported by a team of audit assistants.



Negat Sultan
IT Audit Manager
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E negal.sultan@uk.gt.com

Negat is responsible for review of the Council's IT systems to complement the financial accounts process.

Negat also takes the lead on any additional work required in areas such as data quality and security..



Andy Ka (ACA)
IFRS Specialist
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Andy is responsible for the provision of specialist IFRS support to the audit team.

Andy has a diploma in IFRS and will be used to provide support and advice to the Council as it prepares its accounts in accordance with IFRS for the first time in 2010/11.



Guy Clifton
Government & Infrastructure Advisory
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Guy is an Associate Director with extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

Guy's expertise will be used to support our work on the Council's Value for Money conclusion.

Audit fee

What is the scale audit fee?

This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2008.

It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment.

How we calculate your scale audit fee

The Council's audit fee is calculated in accordance with the Audit Commission's scale of audit fees for 2010/11. For the Council, the scale calculation includes a fixed element for a Unitary council and a percentage of planned gross expenditure as determined by the Audit Commission.

Variations to the scale audit fee

Based on a thorough review by the audit team which includes discussions with Council Officers and Members, we then tailor our work to reflect local circumstances. This may result in a variation upwards or downwards on the scale audit fee. Any variation to the scale fee must be approved by the Audit Commission, following agreement of the proposed fee with the Council.

2010-11 audit fee

As set out in our indicative Audit Fee Letter issued March 2010, the original indicative fee for the audit (excluding the Pension Fund) for 2010/11 was £500,950 (exclusive of VAT), this was the same as the 2009/10 fee.

The scale audit fee for the Council has been calculated at £479,372.
The planned fee represents a 4.5% variation to the scale audit fee.

The Audit Commission indicated in December 2010 that a rebate of 3.5% on the 2010-11 fee with respect to the cessation of the Comprehensive Area Assessment would be paid directly to the Council early in 2011. This rebate is in addition to the earlier rebate of 6% for the additional audit costs arising from the transition to IFRS. The effect of these rebates is to reduce the fee by £45,540, or 9%. A summary is set out on the following page

However, the fee will be continue to be subject to continuous review and may be revised if significant new risks are identified during the audit or if we are unable to progress the audit as planned due to the timing or quality of information provided by the Council. In the event that we consider it necessary to revise the Council's audit fee upwards, we will discuss this with the s151 Officer.

A summary of the audit fee is shown in the table below:

Table 2: 2010/11 audit fee

Audit area	Audit fee 2010/11	Audit fee 2009/10
Financial statements, including WGA	307,570	307,570
VfM conclusion	193,380	193,380
Original planned audit fee	£500,950	£500,950
Rebate re IFRS	(28,762)	-
Rebate re CAA	(16,778)	-
Reduced audit fee for 2010/11	455,410	500,950
Certification of grant claims and returns*	52,000	£52,890

* the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates

Audit fee for 2011/12

The Audit Commission published a consultation document in respect of fees for 2011/12 in December 2010. This indicates that the audit fee for 2011/12 will be 10% lower than the original fee for 2010-11 at £450,855.

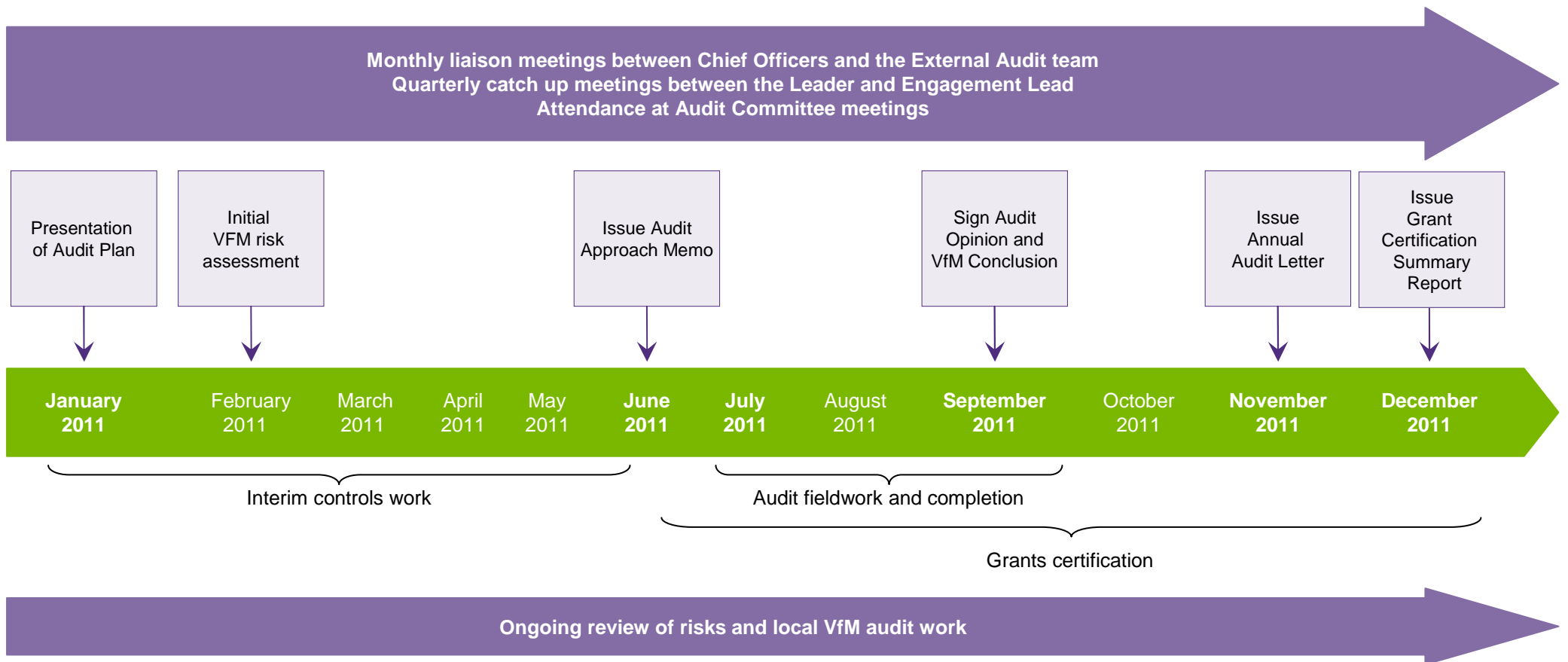
We will update the Committee in respect of any changes following the closure of the Consultation period.

Outputs and timeline

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Reports are addressed to the Audit Committee and management and are prepared for the sole use of the Council, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Output	Purpose	Issue date
Audit Plan	<ul style="list-style-type: none"> Outline audit approach Identify initial high risk areas and our planned response Confirm Plan with Audit Committee 	January 2011
Audit Approach Memorandum	<ul style="list-style-type: none"> Outline our audit strategy on conclusion of controls work Review risks and update planned response accordingly Highlight focus areas for the audit Confirm with Senior Officers and Audit Committee 	June 2011
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> Highlight key issues arising from the audit and detail the resolution of these Communication of adjusted and unadjusted audit differences Improvement recommendations resulting from audit procedures 	September 2011
Auditor's Reports	<ul style="list-style-type: none"> Report on 2010/11 financial statements Report on 2010/11 value for money conclusion 	September 2011
Annual Audit Letter	<ul style="list-style-type: none"> Summarises the key issues arising from our 2010/11 audit 	November 2011
Grants Claim Certification	<ul style="list-style-type: none"> Highlights key issues arising from our grants certification work Recommendations identified for improvement 	December 2011



Appendix A

Independence and objectivity

We are not aware of any relationships that may affect the independence and objectivity of the audit team, which we are required by auditing and ethical standards to communicate to you.

We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The Engagement Lead responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years
- The Engagement Lead and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The Engagement Lead and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.



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