

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

11 November 2011

Report of: Strategic Director (Corporate Services)

Title: Grant Thornton's Annual Audit Letter for 2010-11

Ward: Citywide

Officer presenting report: Richard Powell, Chief Internal Auditor

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RECOMMENDATION

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

Summary

Attached to this report is Grant Thornton's Annual Audit Letter for the year ended 31 March 2011.

The Annual Audit Letter summarises the key issues arising from the work that Grant Thornton has carried out at Bristol City Council during the 2010/11 audit. The Letter is designed to communicate the key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website

Policy

None affected by this report. The Audit Commission has statutory responsibility for 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 Senior Officers before finalising the Annual Audit Letter.

External: not applicable.

1 Introduction

- 1.1 Grant Thornton is required to form an opinion on the Council's annual financial statements and to provide a value for money conclusion. This report summarises the work undertaken, and the conclusions from the work. It also provides an early summary of work undertaken in connection with the certification of grants as required by Government departments and agencies.
- 1.2 They have discussed the report with the Chief Executive, the Strategic Director Corporate Services, and the Service Director, Finance.
- 1.4 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 Annual Audit Letter November 2011

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Bristol City Council

Annual Audit Letter 2010/11

November 2011



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1 Executive summary

Purpose of this letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at Bristol City Council ('the Council') during our 2010/11 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure value for money is achieved (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4)

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our main audit conclusions for the year

The 2010/11 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated that it is their aim to reduce top-down government and devolve power and greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants
- changes to the Housing Revenue Account from April 2012 whereby councils will keep their own rental income but in return will take on a share of the £21 billion national council housing debt as part of a 30 year business plan
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

The Council had assumed that savings in the region of £22m would be required in 2011-12 and as part of its budget setting process had begun to consider and consult on how it could achieve these savings. It had anticipated that further savings might be needed, and when the final settlement was confirmed in December 2010 a further £6m of savings was required. Within a short period of time the Council had, therefore, to identify and agree savings of £28m. Its approach was agreed as part of its budget setting processes.

The final settlement also identified that the Council has to achieve cumulative savings of £70m by 2014/15, with the largest proportion, £28m, being required within 2011/12.

The Directorates are making good progress and as at October, are on track to deliver all of the required £28m savings and are developing plans to set out how the further savings will be delivered in subsequent years.

However, the Council is experiencing increasing demand, particularly within Children and Young People's Services, as well as Health and Social Care and as at 31 July 2011 the Council forecasted to be overspent at the yearend by £3.3m. The Council anticipates that the savings will be achieved. Measures are being taken to address the current forecast overspend and the Strategic Leadership Team are actively monitoring progress.

The Council is working with Members to develop a more robust and long term approach for delivering sustainable efficiency savings over the next three years, which the very short time scale for the identification for savings in 2011-12 prevented. The Council aims to continue to improve its processes and arrangements to deliver sustainable savings going forward.

Key Messages

Accounts audit

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 had 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 had 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 had suggested and discussed a number of disclosure changes following our work. Where agreed, these changes were made to the accounts. Further details can be found in section 2 of this Letter.

Value for Money

We reached an unqualified VFM conclusion on 30 September 2011.

Our work focused on arrangements in place during 2009-10, up to when we signed our conclusion.

Grants certification

We certify a number of grant claims for the Council. The majority of this work takes place in November and December. To date we have certified four claims, of which two were amended. Further details can be found in section 4 of this Letter.

Key areas for Council action

We are well aware of the short time scale in which the Council was required to identify the additional £6m of savings, and that during 2010/11 it was identifying the savings required whilst putting in place the framework which it has subsequently used for 2012-13 and beyond. From our work in 2010/11, we highlight the following key areas, where the Council should take action to further improve its arrangements in 2011/12:

- changes in auditing standards mean that there is increased need to ensure that documentation supports all items within the annual financial statements, and that year end arrangements relating to property are strengthened
- agreeing and publishing the Council's strategic objectives, ensuring the change agenda, financial planning and performance reporting monitor and support the delivery of these strategic objectives
- develop robust business cases for the major change programmes and ensure they deliver SMART financial and non-financial objectives and outcomes
- build on existing performance monitoring systems and ensure the new arrangements enable effective performance reporting and deliver performance improvements
- publish a Medium Term Financial Strategy that is robust and sets out the Council's financial strategy
- ensure Directorates improve the robustness of savings which are realistic and achievable within the budget timeframe and, where slippage occurs, ensure any additional savings and recovery plans are supported by detailed delivery plans. The savings and recovery plans are regularly monitored by Directorates, Senior Leadership Team and by executive members, but should, in our view, have more public scrutiny.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

Acknowledgements

This Letter has been agreed with the Chief Executive and Strategic Director Corporate Services and was presented to the Audit Committee on 11 November 2011.

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

1 November 2011

2 Audit of the Accounts

Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 30 September 2011, the statutory certification deadline. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our Annual Report to those Charged with Governance to the Audit Committee on 30 September and summarise only the key messages in this Letter.

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 had 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 had 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 had suggested and discussed a number of disclosure changes following our work. Where agreed, these changes were 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 were:

- 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.

International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness in March 2011 and assessed the arrangements for restating each line of the balance sheet. Overall we rated the Council's arrangements as being good. 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.

As part of the work undertaken on the Audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. We did not identify any significant departures from these requirements.

Audit of the accounts

No material adjustments to the accounts were needed, but we recommended four improvements in disclosure. Management agreed to make these adjustments which were reflected in the final accounts.

In addition, our audit identified three potential adjustments in relation to:

- the value of indeterminate assets within the City Docks
- the allocation of assets of the Avon Pension Fund to the Council
- the classification of the Bamfield Constellation site within the accounts.

These unprocessed adjustments were approved by those charged with governance at the Audit Committee meeting on 30 September 2011.

The actions agreed with the Council arising from the audit were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

Financial performance

The Council reported a revenue underspend of £3.1m against its agreed 2010/11 budget. This was a £3.3m improvement on the position report in January 2011 and £5.3m on that reported in September 2010.

In the current year, as at the 31 July 2011, the Council was projecting an overspend of £3.3m for the 2011/12 year. The anticipated overspend is as a result of increased demand within the Children and Young People's Services and Health and Social Care Directorates. The Council anticipates that all of the £28m savings planned for 2011/12 will be achieved.

We will continue to keep the Council's financial position under review as part of our 2011/12 audit and the follow-up work we have planned on the Financial Resilience element of our VFM review.

Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in three main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts
- high level review of the general IT control environment.

Our work did not identify any control issues that present a material risk to the accuracy of the financial statements.

However, we identified a number of areas where controls should be strengthened, including:

- strengthening arrangements for the documentation and authorisation of journals; and
- reviewing the Council's arrangements for detecting unauthorised access to its computer networks.

The actions agreed with the Council to resolve these weaknesses were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2011/12 audit.

Annual Governance Statement and Annual Report

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council. The Council had adequate processes in place to ensure that the AGS was updated to reflect developments up to the date of the signing of the accounts.

Certification Arrangements

We received no objections in respect of the financial statements for the year ended 31 March 2011 and were able to issue our audit certificate on the same date as signing the accounts.

Whole of Government Accounts (WGA)

The Council submitted its draft WGA L Pack for audit by the Department for Communities & Local Government (CLG) deadline of 29 July.

We submitted the audited WGA to the CLG by the deadline of 30 September.

3 Value for money

Introduction

The Code of Audit Practice 2010 (the Code) 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.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

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

In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Key Conclusions

We issued our annual VFM conclusion on 30 September 2011, at the same time as our accounts opinion, meeting the required deadline of 30 September 2011. We concluded that, for 2010/11, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Although we have assessed the Council as having proper arrangements in place to meet all the Code criteria, there are some areas where the Council can improve its arrangements, in particular:

- agreeing and publishing the Council's strategic objectives, ensuring the change agenda, financial planning and performance reporting monitor and support the delivery of these strategic objectives
- develop robust business cases for the major change programmes and ensure they deliver SMART financial and non-financial objectives and outcomes
- build on existing performance monitoring systems and ensure the new arrangements enable effective performance reporting and deliver performance improvements
- publish a Medium Term Financial Strategy that is robust and sets out the Council's financial strategy

- ensure Directorates improve the robustness of savings which are realistic and achievable within the budget timeframe, and where slippage occurs, ensure any additional savings and recovery plans are supported by detailed delivery plans. The savings and recovery plans are regularly monitored by Directorates, Senior Leadership Team and executive members, but should, in our view, have more public scrutiny.

Value for money projects undertaken during the year

In addition to our work on the specified criteria, we undertook detailed work to support our VFM conclusion. We have prepared separate reports on the following:

- Bristol's Change Agenda
- review of Corporate Performance Reporting
- Financial Resilience
- progress report on recommendations made in our 2009-10 VFM reports.

Bristol Change Agenda

We have considered the progress made to implement the recommendations made in 2009/10, 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 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 Spring 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 and evaluate the outcomes achieved, both to demonstrate value for money and to ensure clarity around those elements subsumed within the programme. In addition, we recommended that a robust business case should be developed for the new Health and Social Care transformation programme.

Corporate Performance Reporting

Our 2009/10 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. Scorecards are a well used means of driving performance through an organisation, and there is a considerable body of experience in their operation.

The Council scorecards were not originally intended for Member use and review and primarily focus on poor performance. The scorecards provide a base from which performance reporting can be improved and have merits at Directorate level, but they do not provide a balanced view of how the Council and Directorates are performing in line with strategic objectives.

We recommend that the Council should build on the progress made to date and develop a more balanced approach, which will consistently provide progress on priority areas, would support and monitor progress against the strategic objectives, and improve the design and content of the scorecards.

Financial Resilience

Our financial resilience review for 2010/11 considered financial planning and assessed the Council's Medium Term Financial Plan (MTFP) and whether it is fit for purpose and provides a sound financial strategy in the context of the Council's wider strategic objectives. We identified that the MTFP needs to be a robust and effective document. To achieve this, it should be available for public scrutiny and support the Council's strategic objectives. In addition, it should address the savings requirement for 2011/12 (£28m) and beyond to 2015 (£70m), consider appropriate scenarios and be supported by a detailed risk assessment.

In order to ensure the Council is financially resilient going forward, we considered the arrangements in place to support delivery of the 2011/12 savings plans. We recommended that the Council should ensure Directorates improve the robustness of savings which are realistic and achievable within the budget timeframe and where slippage occurs any additional savings and recovery plans should then be supported by detailed delivery plans. The savings and recovery plans are regularly monitored by Directorates, Senior Leadership Team and executive members, but should, in our view, have more public scrutiny.

In addition, we considered financial control and recommended that arrangements could be improved by reporting both the current financial position as well as the forecast outturn position. Reports should be supported by clear and accurate commentaries which explain variances. These improvements should develop better understanding of forecast overspends expected during the year, compared to final year end underspends.

Progress report on VFM recommendations made in 2009-10

Our work includes recommendations 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. Therefore, we recommend arrangements are in place to ensure that recommendations raised by external auditors are monitored and progressed throughout the year.

Approach to local VFM work 2011/12

At time of writing there are no changes proposed to the approach to local Value for Money work in 2011/12. We will continue to focus on the two key reporting criteria, namely:

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

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council. Local risks for the Council to consider at this stage include:

- financial resilience, including financial planning and delivering savings
- corporate performance reporting.

4 Grants Certification

Introduction

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

We are currently in the process of certifying the 2010/11 grant claims and returns. Once this work is complete we will report in full on the findings of our work.

Summary of Findings to date

The Council has submitted eight claims and returns for certification. At time of writing our work is complete on four of these claims. Of these, two were amended.

A 2010/11 reports issued

Report	Date Issued
Audit Plan	January 2011
Review of arrangements for implementation of International Financial Reporting Standards (IFRS)	March 2011
Audit Approach Memorandum	June 2011
Grants Certification Plan	July 2011
Report to Those Charged With Governance (ISA 260)	September 2011
Review of Bristol's Change Agenda	September 2011
Corporate Performance Reporting	September 2011
Value for Money follow-up of 2009-10 recommendation	September 2011
Financial Resilience Report (draft)	October 2011
Annual Audit Letter	November 2011
Grants Certification Report	Due January 2012

B Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Financial Statements	278,808	278,808
Value for Money conclusion	176,602	176,602
Total Code of Practice fee	455,410	455,410
Certification of Grant Claims and Returns	52,000	Work is currently in progress



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