

**BRISTOL CITY COUNCIL  
AUDIT COMMITTEE**

**3 February 2012**

**Report of: Strategic Director (Corporate Services)**

**Title: Grant Thornton's Audit Plan 2011-12**

**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 2011-12.

**Summary**

Attached to this report is the Grant Thornton Audit Plan 2011-12, which sets out the work they will carry out in discharging their responsibilities to give an opinion on the Council's financial statements and a 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 audit and the proposed response to these risks.

**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, 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 2011-12.

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

**Background Papers:** None

# Bristol City Council

## Audit plan 2011/12

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**January 2012**



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# An overview of your 2011/12 Audit Plan

This is our audit plan for the financial year 2011-12 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 (VfM).

We set an indicative fee in March 2011. In setting this fee, we assumed that the general level of risk in relation to the audit would not be significantly different from that identified for 2010/11. Following the completion of the 2010/11 audit we have updated our accounts audit risk assessment.

See  
Accounts audit

The new approach to local Value for Money audit work was introduced by the Audit Commission in 2010/11. In 2011/12 we will continue to give our value for money conclusion based on two reporting criteria specified by the Audit Commission.

See  
Value for  
money audit

The Engagement Lead and Performance Manager remain unchanged but we have taken the opportunity to introduce Gail Turner as the new Engagement Manager. 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 based our fee on the published 2011/12 Audit Commission scale of fee. The planned fee remains as per the Indicative Fee letter (issued in March 2011).

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 audit – introduction

## Introduction

This section of the plan sets out the work we propose to undertake in relation to the audit of the 2011/12 accounts at the Council. The plan is based on our risk-based approach to audit planning and uses 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.



# Accounts audit – risk assessment

## 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	Work to be completed
Accounting for Property, Plant and Equipment	Accounting for schools	<ul style="list-style-type: none"> <li>As we anticipated in our Accounts audit report last year, there have been changes to the Code in respect of accounting for schools. We will discuss with the Council its proposed treatment for this area and will adopt a pragmatic approach when a degree of judgement is required.</li> </ul>
Accounting for Property, Plant and Equipment	Heritage assets	<ul style="list-style-type: none"> <li>The Council will be required to consider the need to apply the new standard for heritage assets as a separate category of assets for the first time in its 2011/12 accounts. We will discuss with the Council its proposed treatment and ensure that there is appropriate disclosure where needed.</li> </ul>
Accounting for Property, Plant and Equipment	Valuations	<ul style="list-style-type: none"> <li>We will review accounting entries in respect of property, plant and equipment and ensure that these are appropriate and supporting evidence is available.</li> <li>We will also review the revaluation and impairment work undertaken by the Council's internal valuation department.</li> </ul>

Key audit risk	Audit areas affected	Work to be completed
<b>Journals</b>	All areas of the financial statements	<ul style="list-style-type: none"> <li>We will review arrangements put in place during the year to ensure that the number of staff able to post journals to the finance system is appropriate and there is appropriate control over the authorisation of journals.</li> </ul>
<b>Financial performance pressures</b>	All areas of the financial statements	<ul style="list-style-type: none"> <li>We will review the Council's financial performance for the year against its agreed budget.</li> <li>We will consider the use of general reserves during the year.</li> </ul>
<b>Use of estimates and Judgments</b>	All areas of the financial statements	<ul style="list-style-type: none"> <li>A project has been completed by the International Auditing and Assurance Standards Board to clarify the International Standards on Auditing. The main area of our work that this is likely to impact on is the use of estimates and judgements within the financial statements. All judgements used by the Council, including those used by professionals such as property valuers, will need to be clearly documented and evidenced.</li> </ul>
<b>Issues arising from the 2010/11 accounts audit</b>	All areas of the financial statements	<ul style="list-style-type: none"> <li>As part of our interim audit, we will review progress against the recommendations made in our 2010/11 ISA260 report and consider whether adequate closedown arrangements are in place for the production of the 2011/12 financial statements.</li> </ul>



# Our Approach

We will utilise Voyager, our audit software package, to document, evaluate and test, where appropriate, internal controls over the financial reporting process in order to reduce our detailed testing. Voyager also helps us to comment constructively on your system of internal controls.

Our approach will be to report all findings to management so that the Council can choose to secure improvement opportunities. We report only those findings that represent a control weakness to the Audit Committee and make formal recommendations.

In all cases, we invest time with management in understanding the basis of the weakness identified and what the options are, for example mitigating controls and system modifications, for improving the system.

## Planning

- Updating our understanding of the Council through discussions with management and a review of the monthly finance reports

## Controls evaluation

- 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
- Assessing the Council's arrangements for complying with tax legislation and Bribery Act requirements
- Testing the operating effectiveness of selected controls
- Assessing internal audit against the CIPFA Code of Practice

## Substantive process

- 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

- Performing overall evaluation of our work on the financial statements to determine whether they give a true and fair view
- Determining an audit opinion
- Reporting to the Audit Committee through our ISA 260 report

# Accounts audit – other issues

## **Additional Assurance work**

To support the audit opinion for 2011/12, we will undertake the following reviews:

- VAT - work is planned to review the current arrangements the Council has in place to ensure VAT is accounted for correctly and in accordance with current legislation
- PAYE - We will undertake a review of the arrangements the Council has in place regarding taxation associated with payroll, including National Insurance and PAYE. This will look to provide assurance that the figures recorded within the financial statements are calculated appropriately and in accordance with current legislation
- Fraud - we will use specialists to review the overall adequacy of the Council's arrangements to ensure that fraud and corruption are addressed effectively.

## **Whole of Government Accounts**

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

## **Certification of Grants and Returns**

In addition to our audit of the Council's financial statements and work to form our Value for Money conclusion, 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 Commission's 'Work programme and scales of fees 2011-12.'

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.

# Accounts audit – public reporting

## **Annual Governance Statement and External Reporting**

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.

We will assess the Council's external reporting, through the 2011/12 Annual Governance Statement and explanatory foreword to the accounts, against best practice and will use our benchmarking tool, containing data from over 200 UK local authorities, to measure the Council against existing sector practice. This will enable us to identify areas where the Council is performing well and areas where there is scope to improve to improve external reporting.

## **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.

# 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 (VfM) conclusion.

## 2011/12 VfM conclusion

The Value for Money approach for 2011/12 remains the same as the prior year. Our VfM conclusion will be based on two reporting 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.

The work we will do to conclude on these criteria is summarised in the following charts:

## Code criteria

The Council has proper arrangements in place for securing financial resilience

We will consider whether the Council has robust financial systems and processes to manage effectively financial risks and opportunities and to secure a stable financial position that enables it to continue to operate for the foreseeable future

## Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- undertake a follow up against the recommendations made from the 2010-11 reports
- consider the Council's financial planning and management arrangements in place to ensure financial resilience
- consider the progress made in delivering the change agenda, including the change to be delivered in Adult Social Care and Children and Young People's Services.

# Value for money Audit

## Code criteria

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

## Work to be undertaken

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

Specifically we will:

- consider the financial modelling for the ELENA investment programme
- review the arrangements in place to deliver VFM through the Council's VFM strategy.

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 brief specification for each review outlining the scope, methodology and timing.

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 – key contacts

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.



**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



**Gail Turner**  
**Manager**  
 T 029 2034 7546  
 E @uk.gt.com

Gail is responsible for the audit strategy, planning and liaison with key Council contacts to ensure the smooth running of the audit and the delivery of the overall audit plan.

Gail 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**  
 T 0117 305 7623  
 E @uk.gt.com

Ginette is the Trusts'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.

# Engagement team – specialist support



**Negat Sultan**  
**IT Audit Manager**  
T 0161 247 5900  
E [negat.sultan@uk.gt.com](mailto:negat.sultan@uk.gt.com)

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



**Bob Anderson**  
**IFRS Specialist**  
T 020 7728 2245  
E [bob.anderson@uk.gt.com](mailto:bob.anderson@uk.gt.com)

Bob is responsible for the provision of specialist technical support to the audit team.

Bob will be used to provide support and advice to the Council throughout the year as it prepares its accounts for 2011/12.



**Karen Smith**  
**Advisory Specialist**  
T 0117 305 7778  
E [Karen.smith@uk.gt.com](mailto:Karen.smith@uk.gt.com)

Karen has extensive public sector experience specialising in financial, efficiency and performance reviews and transformation and change management.

# 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 your scale audit fee is calculated

The Audit Commission has published a scale fee for all authorities. This scale fee is based on the 2010/11 fee (before rebates), which reflected our assessment of risk and complexity, reduced by 10%

## 2011-12 audit fee

Your external audit fee for 2011/12 is £450,855 (£500,950 before rebates of £45,540 in 2010/11). This is the same as the indicative fee communicated to you in March 2011.

The fee will be subject to continuous review and may be revised if significant new audit risks during the audit or if we are unable to progress 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 Head of Corporate Finance and Procurement. A summary of the audit fee is shown in the table below:

**Table 2: 2011/12 audit fee**

Audit Area	Planned Fee 2011/12	Actual fee 2010/11
Accounts, including WGA	£270,444	£278,808
VFM conclusion	£180,411	£176,602
<b>Total audit fee</b>	<b>£450,855</b>	<b>£455,410</b>
Certification of claims and returns*		£50,000* <b>est</b>

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



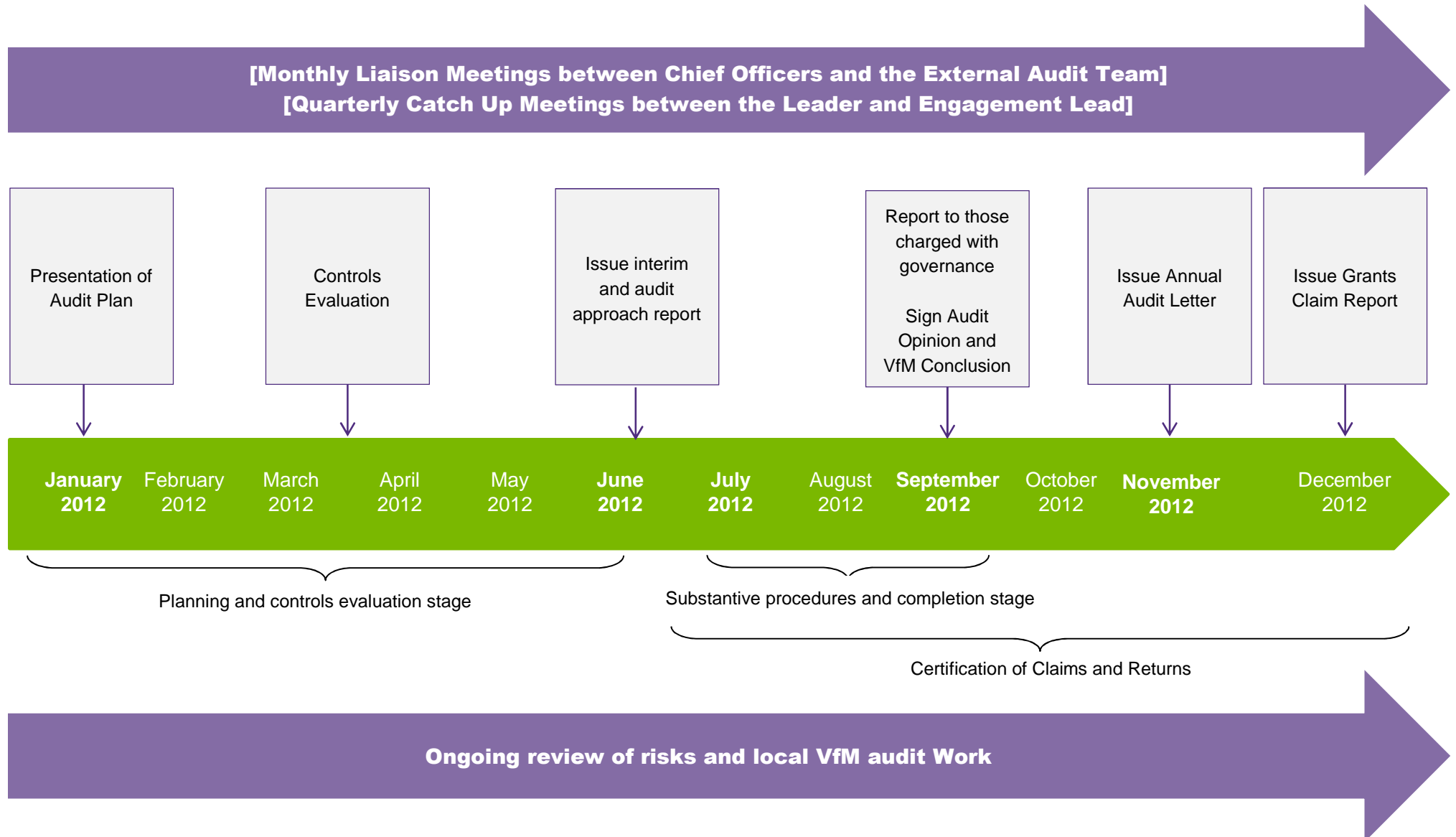
# Outputs

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. No responsibility is taken by the 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"> <li>Outline audit approach for the accounts and VfM audits</li> <li>Identify initial high risk areas and our planned response</li> <li>Confirm Plan with Audit Committee</li> </ul>	January 2012
Interim Report	<ul style="list-style-type: none"> <li>Report the results of the control evaluation of our audit and its impact on our planned audit approach</li> <li>Confirm focus areas for the audit of the accounts based on updated risk assessment</li> <li>Provide certain disclosures to those charged with governance under auditing standards</li> <li>Confirm with Senior Officers and Audit Committee</li> </ul>	June 2012
Report to those charged with Governance (ISA 260)	<ul style="list-style-type: none"> <li>Highlight key issues arising from the audit and the resolution of these</li> <li>Communication of adjusted and unadjusted audit differences</li> <li>Improvement recommendations resulting from audit procedures</li> </ul>	September 2012
Auditor's Reports	<ul style="list-style-type: none"> <li>Report on Bristol City Council financial statements</li> </ul>	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> <li>Short summary of the key issues arising from our 2011/12 audit</li> </ul>	November 2012
Certification Report	<ul style="list-style-type: none"> <li>Highlights key issues arising from our certification work</li> <li>Recommendations identified for improvement</li> </ul>	December 2012

# Timeline



# Appendices

# 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

# Appendix B - Keeping you up to date

The collage features several Grant Thornton publications:

- Sustainable cities:** A vision of our future landscape, featuring an illustration of modern buildings and green spaces.
- Spending Review 2010 Headlines:** A report on the government's spending review, including a photo of Secretary Peter Gaskin.
- The Bribery Act 2010:** A report on the new legislation, featuring a photo of a man in a suit.
- Surviving the storm: how resilient are local authorities?:** A report on the challenges facing local authorities, including a 28% reduction in funding and a 28% reduction in staff. It includes a diagram showing the impact of funding cuts on various services like libraries, social care, and council housing.
- Asset management:** A report on the challenges of managing assets, including a diagram showing the relationship between performance, culture, and innovation.
- Is your audit committee effective?:** A report on the effectiveness of audit committees, including a diagram showing the relationship between the audit committee and the board.
- Annual Governance Statement: adding real value?:** A report on the value of the annual governance statement, including a diagram showing the relationship between the annual governance statement and the annual report.



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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