

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

28 SEPTEMBER 2012

Report of: Service Director (Finance)

Title: Grant Thornton's Annual Report to those charged with Governance 2011-12

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 2011-12 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 2012. 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.
- Overall the financial statements have been prepared to a good standard. A number of adjustments 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 with regards to a number of improvements. 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 2011-12 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 2011-12.

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 2012



The image shows a handwritten ledger page titled "BALANCE SHEET" with the date "31st March 2012". The page is tilted and contains several rows of entries with corresponding numerical values in three columns. The entries include:

	2011	2012	2013
Bank	100	200	150
Debtors	50	100	200
Creditors	20	30	40
Fixed Assets	100	100	100
Reserves	100	100	100
Capital	100	100	100
Profit	100	100	100
Loss	100	100	100
Other	100	100	100
Total	1000	1000	1000

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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 2012. At the date of preparing this report, some of our work is on-going and we will therefore verbally update the Audit Committee if we identify any matters which should be brought to your attention.

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 2012, 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 29 June 2012, in advance of the 30 June 2012 deadline. The financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (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 the requirements for working papers are distributed across the Council, Management 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 working papers 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 28 September 2012.

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 Director - 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 Director - 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

19 September 2012

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 2012.

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

Issue	Audit areas affected	Work completed	Assurances gained
Accounting for Property, Plant and Equipment	Accounting for Schools	<ul style="list-style-type: none"> No definitive CIPFA guidance has been issued and therefore a judgement is needed on behalf of the Authority. We reviewed the judgements applied to the accounting treatment. We have reviewed the disclosures within the financial statements to ensure that the requirements of the Code have been met. We have discussed the accounting treatment of Academies that are subject to PFI contracts, and expand on this later in this document. 	<ul style="list-style-type: none"> We consider the judgements made by the Authority to be appropriate. Disclosures meet the requirements of the code. We will work with the Council during 2012-13 to consider further the treatment of PFI Academies.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting for Property, Plant and Equipment	Heritage Assets	<ul style="list-style-type: none"> We have reviewed the judgements applied in determining the appropriate classification and valuation of assets. We have reviewed the disclosures within the financial statements in relation to heritage assets to ensure that the requirements of the Code are met. 	<ul style="list-style-type: none"> We consider the judgements made by the Authority to be appropriate. Disclosures meet the requirement of the code.
Accounting for Property, Plant and Equipment	Valuations	<ul style="list-style-type: none"> We have reviewed the valuations of fixed assets entered on the fixed asset register for accuracy and completeness. We have reviewed the disclosures within the financial statements in relation to additions, disposals and impairments to ensure that these have been calculated on an appropriate basis and in line with the Code. 	<ul style="list-style-type: none"> We consider the judgements made by the Authority to be appropriate. Disclosures meet the requirement of the code.
Financial Performance Pressure	All areas of the financial statements	<ul style="list-style-type: none"> We have reviewed the Council's financial performance for the year against its agreed budget and prior year at the year end. We have considered the use of general reserves during the year and at the year end. 	<ul style="list-style-type: none"> We noted that the Council has a good track record of ensuring that net spend is below budget and that the net savings targets have been met. Over spends did occur in some directorates, particularly within Children and Young People. We consider the use and disclosure of general reserves by the Authority to be appropriate
Use of Estimates and Judgments	All areas of the financial statements	<ul style="list-style-type: none"> We have reviewed all judgements used by the Council, including those used by Professionals, such as property valuers, that impact the financial statements to ensure that they have been clearly documented and evidenced. 	<ul style="list-style-type: none"> We consider that the judgements utilised by the Authority are appropriate and we have noted no issues.

Issue	Audit areas affected	Work completed	Assurances gained
Issues arising from the 2010/11 accounts audit	All areas of the financial statements	<ul style="list-style-type: none"> We reviewed the responses received from Management in relation to the recommendations made in the ISA 260 for the year ended 2011/11 and considered whether these impacted upon the 2011/12 financial statements. 	<ul style="list-style-type: none"> Each Management comment has been examined and considered separately. Where the issue is not resolved, this has been referred to later in this document.
Housing Rents	Revenue	<ul style="list-style-type: none"> We have reviewed the disclosures in both the HRA and the Comprehensive Income and Expenditure statement to ensure that these have been made in line with the related accounting policies. We have reviewed the entries in the HRA and the Comprehensive Income and Expenditure statement to ensure that these entries are consistent. 	<ul style="list-style-type: none"> We substantively tested the entries included within the HRA and noted no issues.
Unaddressed variances in the Bank Reconciliations	Bank Reconciliations	<ul style="list-style-type: none"> During the interim audit, we noted that the bank reconciliations had moved from Corporate Finance to Shared Transaction Services (STS) and various un-reconciled items were identified through testing carried out by Internal Audit raising the possibility that there was a risk that the cash position of the Council may have been inaccurate at the year end. During the interim audit, discussions with Management ascertained that bank reconciliations were being carried out by Corporate Finance, over and above that being carried out by STS. 	<ul style="list-style-type: none"> Each bank reconciliation was obtained, tested and agreed to letters received from the bank. No issues were noted. We have been informed by Management that the preparation of the bank reconciliations will be re-located within Corporate Finance with imminent effect.
Subsystems are not being reconciled to the General Ledger	Employee Remuneration Cash & Bank General Ledger	<ul style="list-style-type: none"> During the interim audit we noted that there was a risk that the subsystems operated by STS were not being reconciled to the General Ledger and therefore revenue, capital accounts and cash balances may have not reconciled at the year end. 	<ul style="list-style-type: none"> Subsystem reconciliations are now monitored and reviewed by Corporate Finance to ensure any un-reconciled items are addressed. Year end subsystem reconciliations were obtained and reviewed and no issues were noted.

Issue	Audit areas affected	Work completed	Assurances gained
Urgent notice issued by Internal Audit for the Expenses system	Employee Remuneration	<ul style="list-style-type: none"> We noted during the interim audit that the testing of the Selima Expenses system by Internal Audit revealed that the back button on Internet Explorer allows re-entry into the system without having to login. The user could also enter the system through the browser history cache without entering login details. Since the issue of this notice a fix has been provided by the supplier which has been reviewed by Internal Audit and ourselves. 	<ul style="list-style-type: none"> Our testing over the security of the expenses system has provided adequate assurance. Testing of the Employee remuneration has been detailed below.
Urgent notice issued by Internal Audit for the Payroll System	Employee Remuneration	<ul style="list-style-type: none"> During Internal Audit testing of the Envoy Payroll system it was discovered that by logging into the training module it was possible to change other users passwords on the live Payroll system. Since the issue of this notice a fix has been provided by the supplier and was implemented immediately to internal audits satisfaction, but no evidence was available to this effect. 	<ul style="list-style-type: none"> Our testing of the payroll system has provided adequate assurance. Testing of the Employee remuneration has been detailed below.
Overpayment of leavers due to late notification to Payroll	Employee Remuneration	<ul style="list-style-type: none"> A review of leavers, by internal audit, from the Neighbourhoods Service found that management do not notify the Employee Life Cycle Team of leavers in a timely manner, resulting in salary overpayments. A listing was therefore obtained of all leavers still included on the payroll system as at 31 March 2012 and was checked to the payroll system, comparing the leaving date with the last pay date. 	<ul style="list-style-type: none"> Our testing highlighted instances whereby employees had been overpaid if no leavers form had been submitted. Our Employment Taxes specialists are reviewing the Council's arrangements and we will share the results of our work so that they can take this into consideration when performing their work.
Internal Audit follow up of the Corporate Online Procurement System	Creditors	<ul style="list-style-type: none"> An Internal Audit follow up report found that from 16 recommendations raised only one had been addressed. The main issues that had not been addressed, related to the potential for fraudulent payments via the automated processing of orders below £300. With two known frauds perpetrated through the procurement system it was a weakness that needed to be addressed. 	<ul style="list-style-type: none"> Our testing of transactions under £300 identified no potential issues. Our testing of creditors found that there were no issues with unrecorded liabilities or accruals. We did however note some debit balances on the creditors ledger and we have suggested adjustments for these in appendix B.

Issue	Audit areas affected	Work completed	Assurances gained
Internal Audit follow up of the Corporate Online Procurement System (continued)	Creditors	<ul style="list-style-type: none"> Using Computer Assisted Audit Techniques (CAATS), we were able to download all transactions under £300 and integrate these to determine the volume posted by each individual, any round numbers, unusual postings times to seek to identify any patterns. 	
Journals	All areas of the financial statements	<ul style="list-style-type: none"> We have reviewed the arrangements in place to ensure that there is appropriate control over the posting and authorisation of journals. 	<ul style="list-style-type: none"> 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. We raised this issue last year and fully recognise that Management are currently implementing a new financial system which will address these concerns. We raise it here as the control weakness still exists.

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
- 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 28 September 2012.

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 to enable us to complete the audit. 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 5 July 2012. 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 2011/12 (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 March 2012 was distributed to the other officers in the finance teams and to relevant teams across the Council and we believe this has had a positive 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.

Property, Plant and Equipment

There are a number of matters to bring to your attention in relation to property, plant and equipment. However, at the date of drafting this report, our testing is not yet complete and we will therefore verbally update the Audit Committee should we consider there to be any further matters to bring to your attention.

Depreciation of assets

The Council depreciation policy states that infrastructure assets will be depreciated over a 25 year useful economic life and this has been applied consistently to all such assets with the exception of the City Docks. These have been valued at £25,960k but have not been depreciated in line with the policy.

The Council have deemed that the City Docks should not be depreciated as they have been in operation for more than 100 years and therefore allocating a useful economic

life would not be reasonable. This is an acceptable practice and is in line with accounting policies but is not in line with the policy for depreciation of an infrastructure asset.

The Council should either reclassify this asset to a category that does not require depreciation, such as Community Assets, or the depreciation policy should be changed to recognise the treatment of the City Docks asset.

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 on-going recording do not outweigh these benefits". This planned review has not been undertaken.

While we can accept the treatment for 2011-12 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

We have concluded our work on investment properties with the exception of one item that requires further explanation as to whether it has been correctly classified. This requires discussion with an officer who, although not ultimately responsible for the classification, was responsible for the figure within the accounts, and was unavailable during large parts of the audit. We were unable to ascertain who the correct officer to contact was until his return any issues will be verbally updated to the Audit Committee.

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 2013/14 Code.

The adoption of IFRIC 12 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 on-going. 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". The accounting for Academies that are subject to PFI contracts is more complex, and these remain "on balance sheet", with increased disclosures to enable the reader of the accounts to identify the values involved.

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

Schools are derecognised by the Council when they become academies as the Council no longer gains economic benefit from the assets. A number of schools converted in the first half of the current financial year and it is likely that certification of the application by the Secretary of State was made prior to 1 April 2011. Whilst the treatment adopted is in line with the Code of Practice it would have been prudent for the Council to have impaired the assets to their remaining useful economic lives until they became Academies. We have not reviewed this in the current year but will continue to have ongoing dialogue with the Council to address this issue in future financial years.

PFI Academy Schools

The financial statements include three Academy Schools, funded under PFI contracts, that have been included on the Balance Sheet. The value of these assets is £56m. As with other, non-PFI Academies, the assets have been leased to the Academies, but because of the PFI contracts, the Council remains responsible for any dealings with the PFI contractor. The Council is, therefore of the view that it has control of the assets and has not derecognised them.

We acknowledge that this is a complex area, and, following considerable discussion, the Council has included in the financial statements sufficient disclosures to enable a user of the accounts to identify the values involved.

The Balance Sheet also shows the value of PFI liabilities for Schools to be £149m as at 31 March 2012, an element of which relates to the PFI Academies which remain on the Balance Sheet. We will continue to work with the Management Team to determine the extent to which the liability relating to these Academies is recovered from grant funding or reimbursed from the Academies. If the full amount is not being recovered, there is a potential for the liability to become an "onerous contract" as the Council is paying a liability when it no longer has control over the assets relating to the liability.

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 2011-12 financial statements at Note 31.

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 comply with the requirements of the Code.

Key Personnel

We noted that the responsibility for key areas of the financial statements has been passed to just one individual. This is due to retirements and a change in the structure of the Corporate Finance team. This potentially raises an issue with annual leave requests for these key personnel between 1 April and 30 September. Contingency plans should therefore be made to ensure that adequate cover is in place should they choose to take annual leave or become ill.

Icelandic Banks

The latest LAAP bulletin (number 82 issued on 12 June 2012) illustrated the accounting treatment that Local Authority's should adopt regarding Icelandic Bank Deposits. The Council have however, decided not to follow this guidance but have made full disclosure as the reasons behind their decision. Our view is that the LAAP bulletin provides the best estimate of the current position on amounts recoverable and therefore should be adhered to. The Short Term Investment value included in the financial statements is £2,133k, however the value of the asset recognised by the Icelandic Banks is £2,863k but is reduced to £2,664k when foreign exchange losses are included. This is an understatement in the value of the Short Term Investments of £531k and a adjusting entry has been proposed in Appendix B.

Payroll

During our interim audit, we noted that Internal Audit had published reports which highlighted weaknesses in the payroll system. Our testing of overpayments of leavers also highlighted some areas of concern. With this in mind, we have asked our Employer Taxes specialists to undertake a high level "mock HMRC" review into the payroll system. This work has not yet been completed and we will verbally update the Audit Committee as to the findings.

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 and the unavailability of key personnel due to annual leave, term time working and understaffing. 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 has been received but as at the date of drafting this report testing was still being undertaken to agree the figures back to the Fixed Asset register and the statement of accounts. Any issues identified will be verbally updated to the Audit Committee.

Estimates and judgements

ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures introduced greater rigour and scepticism into the audit of accounting estimates last year. 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 have examined the estimates and judgements utilised by the Council and have no issues to bring to your attention.

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 31, 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

As we reported in the prior year, 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, however an improvement was noted when compared to the prior year. A large number of individuals are able to enter journals onto the system and 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. We note that the introduction of the new accounting software will address this issue.

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 made a recommendation in our Interim report:

- There has not been a user access review of CFS users by the application custodians in the year. If user access is not reviewed by management on a regular basis, there is a risk that access granted to users becomes disproportionate to the users job roles and responsibilities over time. Such issues would not currently be identified in a timely manner.

Furthermore, there is an increased risk of inadequate segregation of duties as individuals transfer roles within the business and their access rights are amended without due consideration of conflicting system privileges.

It is our experience that over time, users will accumulate access privileges to areas they no longer require access to. As result, there is a need to ensure that user access reviews are undertaken at least once a year.

We recommend that IT sends a list of access rights of staff to the CFS custodians and request them to state if the current access is appropriate.

Where access is no longer required IT should remove it accordingly.

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 2012 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 consider 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 the 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 noted some of the requirements, as set out by the CIPFA framework – Delivering Good Governance, had not been met although these are minor. The AGS was updated from the draft reviewed and as at the date of this report had not been received and therefore not reviewed. The Council needs to be aware of audit requirements to ensure that documents are received in a timely manner to allow full inspection in order that an opinion may be reached. Any amendments to the AGS will be given as a verbal update.

Public questions

We received no questions from the public in respect of the financial statements for the year ended 31 March 2012.

We have received queries from a number of members of the public into West Town Lane Academy and the Ashton Vale developments. Work is on-going on these topics, but these matters do not, in our judgement, prevent the audit opinion being signed.

Review of the Redcliffe Wharf Developer Selection Process

This review was completed at the request of the Chief Executive, in its capacity as external auditor, to investigate the allegations made by an interested party that there were "serious and systematic failings" in the Council's operations and handling of the developer selection for Redcliffe Wharf.

The scope of the review was to establish whether the Council followed a robust and appropriate process to deliver against the Informal Planning Guidance Note February 2011 for the Redcliffe Wharf development.

We concluded that there was no evidence that the Council had acted other than in good faith and that the process had been focused on securing a suitable developer for the site in accordance with the Supplementary Informal Planning Guidance Note dated May 2011 and the Marketing & Development Brief dated June 2011.

We identified a number of steps in the developer selection process which could have been communicated more effectively and would have resulted in a more transparent process.

Our key recommendation was that a clear process (to include stages, matrix scoring, decision makers and acceptable lines of communication) should have been communicated with all interested parties.

Next steps

The Audit Committee is required to approve the financial statements for the year ended 31 March 2012. 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; and
- review regularly the adequacy and effectiveness of these arrangements.

For 2011-12 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; and

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

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. 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.



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 Portfolio 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 and our review of the ELENA application and supporting models	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 2010-11	Proper arrangements considered to be in place.

Code criteria	Work completed	Conclusion
<p>Planning, organising and developing the workforce effectively to support the achievement of strategic priorities</p>	<p>Considered in our review of the Council's Financial Resilience and as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity. We also assessed the progress made in implementing recommendations made in 2010-11</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 and our review of the Implementation of the VFM Strategy.</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 2010-11</p>	<p>Proper arrangements considered to be in place.</p>

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 five local reports were:

- 1 Bristol's Change Portfolio (draft) reported in September 2012
- 2 Review of the Implementation of Bristol's VFM Strategy reported in September 2012
- 3 Review of the Council's Arrangements for Securing Financial Resilience, reported in September 2012
- 4 Review of ELENA application and supporting models - part one, reported June 2012 and part two reported September 2012 and
- 5 Value for Money Conclusion Follow-up of Recommendations, reported in September 2012.

We identified these areas in our audit plan which was presented to you in January 2012. 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 Portfolio

As part of this review we reviewed:

- the progress against the recommendations made in 2010-11;
- the changes to the programme since our last review- particularly in respect of the governance arrangements;
- the level of outcomes and benefits achieved thus far, and forecast; and
- the change programmes taking place within Adult Health and Social Care and Children and Young People's Services, to understand recent developments and the impact of the programme, in terms of delivering services more efficiently and effectively.

We concluded that the Council has continued to review and strengthen its governance arrangements both within and across Directorates. It has introduced the Portfolio Management Group and developed target operating models within the Directorates.

The Council is fully aware that cashable savings must be delivered through the change portfolio. Although it has yet to demonstrate that significant savings can be delivered through the change portfolio, achievement to date is in line with plan and should increase year on year. In 2011-12 the change portfolio delivered 18% of the total planned savings. In 2012-13 this proportion should increase with savings continuing until 2015-16 where the forecast net cumulative savings are expected to be £236m.

As part of this review we raised the following high priority recommendations:

- The Council should review the role and capacity of the Portfolio Management Group to ensure arrangements are appropriate and effective.
- The Council should review the role of Members in the current governance arrangements.
- The Council should develop full business cases for the CYPs and HSC programmes, ensure they are kept up to date during the life of the programme and are supported by detailed risk logs.
- The Council should ensure it monitors the effect that organisational change has on service delivery to ensure the impact on performance is understood and the risk of any reduction in standards is minimised.
- The Council should actively engage stakeholders in the Bristol Workplace programme by identifying and profiling the stakeholders and developing a communication plan.
- The Council should review the membership of the Bristol Workplace Programme Board and the role of the Senior Responsible Officer to ensure effective governance arrangements are in place.
- The Council should ensure all programmes are delivering SMART non-financial objectives and outcomes, which are aligned and considered alongside the outcomes for other programmes and are actively monitored.

- The Council should ensure it monitors the effect on services (business as usual) of organisational change to ensure the impact on performance is understood and the risk of any reduction in standards minimised.

Implementation of Bristol's VfM Strategy

In this review we assessed the extent to which the VfM Strategy has been complied with, has enabled a better understanding of how services are performing, and whether the Strategy has helped responsible officers to improve VfM in particular areas. As part of this review we assessed the practical implications of adopting the Strategy in the following three service areas:

- housing benefits;
- adults with learning difficulties; and
- youth services.

These three service areas were chosen to help us understand how the new VfM Strategy has operated in practice. We have not carried out any detailed analyses of VfM in these service areas.

We concluded that the VfM Strategy is a valuable management tool that demonstrates BCC's corporate commitment to improve VfM. It provides a sound base which should enable BCC to deliver and clearly demonstrate VfM. However, we are concerned that the current Directorate-led arrangements potentially undermine the Strategy and that improvements need to be made to ensure that the Strategy's objective are achieved.

The VfM Strategy has taken longer than anticipated to be adopted across the Council and implementation requirements have been locally interpreted resulting in inconsistencies between Directorates.

The Chief Executive and the Strategic Leadership Team (SLT) have overall responsibility for ensuring BCC and its services deliver VfM. A process of self-regulation has been introduced to ensure adoption of the VfM Strategy.

In order to ensure consistency, both within and across Directorates, we recommend that governance arrangements should be strengthened. This should include:

- clear leadership of what is expected and by when;
- regular monitoring of compliance;
- prompt action taken to address non-compliance, with officers held accountable; and
- quarterly reporting to the Resources and Scrutiny Commission.

In the sample of three service areas we examined we conclude that the roll out of the VfM Strategy (and its toolkit) has not radically altered the way service managers think, but has provided a useful discipline and offered a method by which opportunities for VfM can be identified and improved.

Although the toolkit offers a good start, we consider that the process and possible future improvements in VfM are being hindered by:

- a lack of SMART target setting, this both limits the improvements individual services can achieve and prevents the Council at a corporate level demonstrating VfM;
- gaps in analysis and coverage within service areas; and
- a lack of good quality comparisons against which performance can be measured and improvements made.

Financial resilience review

We have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have reviewed the financial resilience of the Council by looking at:

- key indicators of financial performance;
- its approach to strategic financial planning;
- its approach to financial governance; and
- its approach to financial control.

Key Indicators of financial performance

In this area we concluded that adequate arrangements were in place.

The Council in comparison to the Audit Commission's "nearest neighbours" is consistent with the trends and averages in comparison to others. The Council has consistently delivered an underspend against budget, whilst maintaining its level of reserves and savings in the region of £29m.

Strategic Financial Planning

In this area we concluded that adequate arrangements and characteristics are in place in some respects, but not all, and areas for improvement were identified.

The Council published its first combined Corporate priorities and MTFP in February 2012, following consultation and Member scrutiny. However, it does not include detailed financial analysis, modelling and scenario planning of income and expenditure. The Council made a decision not to publish detailed financial information beyond 2011-12.

We recommended that the Council's published MTFP should include financial analysis and scenario planning on income and expenditure, for the next three to five years and that increases in Directorate budgets for unavoidable growth should be supported by detailed financial analysis to enable effective scrutiny and identify possible funding shortfalls.

Financial Governance

In this area we concluded that adequate arrangements and characteristics are in place in some respects, but not all, and areas for improvement were identified.

We consider that the Strategic Directors have a good understanding of the financial position and meet regularly to oversee and manage progress. However, the formal reporting to Cabinet and Scrutiny could be improved. We found that reporting to the Directorate Scrutiny Commissions was inconsistent and for one Scrutiny Commission progress against budget occurred only once during 2011-12. In addition only Cabinet and the Resources and Scrutiny Commission received a final outturn return for 2011-12, which did not include detail on the planned savings programme.

We recommended that reporting to Members on performance against budget (revenue) should be improved to ensure effective scrutiny. Performance should be reported quarterly, on a timely basis and be consistent across the differing scrutiny commissions.

Financial Control

In this area we concluded that adequate arrangements were in place.

The Council has a good track record of achieving its planned budget, under spending its 2011-12 net budget by £1.9m and the Council has achieved its savings target of £29m, although this has been achieved by bringing forward savings planned for 2012-13, alternative savings plans and underspends across a range of services.

However, the financial information and reporting is undermined by the existing financial systems, which the Council plans to replace and considers are no longer fit for purpose.

Review of ELENA application and supporting models

The Council has been working with the European Investment Bank (EIB) for more than 12 months to secure funding support for Technical Assistance ("TA") for £2.5m to progress a £140m investment programme.

We prepared an initial report, which focussed on the ELENA application and a review of the supporting financial models.

We identified key commercial and financial risks and issues we believed the Council should consider in advance of signature of the Funding Agreement. This included risks related to achieving the required Leverage Factor of 25:1, which is the ratio of programme investment required to TA funding drawn. Based on TA funding of £2.5m this equates to a minimum programme investment requirement of £62.5m. This is well below the Investment Programme included in the ELENA application (£140m). In addition, the terms of the Funding Agreement specify that such investment does not have to have occurred during the contract period, provided an appropriate contract notice has been published. This reduces the risk of claw back by the EIB considerably.

On the basis of this review we were broadly supportive of the Council's decision to sign the Funding Agreement with the EIB. We believe it is possible for the Council to successfully manage the financial risks associated with signing the Funding Agreement through the implementation of strong overall programme management arrangements including the careful management of Technical Assistance budgets, improved financial modelling of the overall programme and focussed feasibility work to identify those strands of the investment programme which can deliver the required Leverage Factor.

A second report was prepared which provided an assessment of the potential funding and delivery model for an Energy Services Company including an assessment of the investment programme and identification of options which could realistically be employed in the Bristol context.

This included an initial proposal for an integrated, practical and robust Commercial Model to determine how to finance and deliver the Council's investment programme and recommendations on actions the Council should take before the start of the ELENA programme.

We made the following recommendations (required over the coming 3-6 months) which the Council should take in relation to the funding and delivery aspects of the ELENA investment programme.

- **Resourcing:** Identify and secure short and medium term resources required for a full Project team, using specialist external consultancy support as required.

- **Programme Management:** Prepare a comprehensive Project Plan including budgets, risk register and governance arrangements.
- **Finance and Delivery Strategy:** Develop a strategy for the overall finance and delivery of the investment programme based on the Council's preferred delivery models, willingness to provide finance, and risk appetite. Prepare an ESCO business plan with supporting business cases for each of the investment strands.
- **Retrofit:** Maximise use of available grant funding (CESP, CERT, DECC) to initiate one or more pilot retrofit projects on Council stock to create exemplars and kick start early investment activity.
- **Stakeholder Communication and Engagement Plan:** Develop a comprehensive stakeholder and communication engagement plan for the ESCO and individual strands of the investment programme.

Value for Money Conclusion Follow-up of Recommendations

This report brought together our findings on all VfM recommendations raised in previous years. We are able to conclude that adequate progress has been achieved, although a number of recommendations remain outstanding.

However, we are concerned that this work commenced in April 2012 and we were unable to complete until September 2012. We found that officers often do not respond on a timely basis and as such we were unable to efficiently and effectively complete this work.

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 2012.

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 2012 are as follows:

	£
Audit services	
Statutory audit	450,855
Additional audit work	20,000
Non-audit services	55,000

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
Disclosure	Various	Related Parties	<p>We have identified several entities which we consider to be related parties, but which have not been disclosed in note 40</p> <ul style="list-style-type: none"> • Avon and Wiltshire Mental Health Trust – Payment in the year £4,456k. • Bovis Homes – year end debtor £6.7m and £7.4m creditor. • Grant received from Department for Transport £2.1m.
Classification	20,369	CIES – Local authority housing	The MRA subsidiary has been double counted within the CIES; this has resulted in an overstatement of both gross expenditure and gross income by £20m. There is no impact on the net expenditure.
Disclosure	9	Members' Allowances	<p>The breakdown of the Members allowance as published in line with "The Local Authorities (Members Allowances)(England) Regulations 2003" do not agree to Note 35 of the accounts.</p> <p>Although not material in size this is material by nature.</p>
Disclosure	various	CIES	The Local Government Code states that Cultural and Environmental heading should be aggregated across three headings as has been completed for 2011/12, however corresponding disclosure for 2010/11 have not been made.
Disclosure	104	Property, plant and equipment	Operational lease identified as not included in prior year, Kenham, has not been included in 2011/12.

Adjustment type	£000	Account balance	Impact on financial statements
Disclosure		Property, plant and equipment	The name of the valuer and his qualifications should be included in the notes to the accounts
Disclosure	45,500	CIES – Exceptional Items	<p>As per LAAP 92 and further guidance HRA self-financing settlement should be disclosed separately on the face of the CIES.</p> <p>Similarly the write off of schools transferring to academics should be disclosed as an exceptional item – we are currently working with Management to identify whether any adjustments are necessary in this respect.</p>
Disclosure	55,582	Property, plant and equipment	Three PFI Academies remain on the balance sheet. This is a complex area and the Council has added sufficient disclosures to enable the reader to identify the values involved.

Unprocessed adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	2012 – 810 2011 – 1,154	Employee Remuneration	A mathematical error was noted in the calculation of holiday pay accrual for teachers, this resulted in an over provision of £810k in the current year. A similar misstatement was identified in the prior year of £1,154k. As such in the current and the prior year short term creditors have been overstated.
Classification	500	HRA Debtors	Zurich debtors are not correctly disclosed. The majority is inter departmental and will be netted off.
Misstatement	531	Short Term Investments	Icelandic Banks – understatement as a result of not following current best estimates included within LAAP 82.

C Action Plan

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	<p>We note an improvement in the working papers this year however to assist in the efficiency of the audit, the working papers should be reviewed for completeness and accuracy before they are presented to the audit team.</p> <p>As part of the audit we noted that there were papers missing from key sections of the accounts or papers not updated to the current year.</p>	M	<p>The majority of the working papers were reviewed for completeness and supplied electronically before commencement of the audit. However it is acknowledged that there were a relatively small number of working papers supplied at a later stage during the audit. The relevant accountants will ensure these working papers are available for the commencement of next year's audit.</p>	June 2013 Tony Whitlock
2	<p>There are several key personal within the finance team who are solely responsible for a section of the financial process.</p> <p>Suitable plans should be put in place to ensure there is suitable in-house knowledge and cover should a key member become unavailable.</p>	H	<p>The Head of Corporate Finance will review staffing arrangements to ensure adequate cover is available during the closedown process.</p>	April 2013 Graham Friday
3	<p>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.</p>	M	<p>These comments have been noted and are being addressed as part of the implementation of the Council's new financial system which will go live on 1 April 2013.</p>	April 2013 Graham Friday
4	<p>A review of the misstatements should be undertaken and an action plan drafted to ensure that the risk of these misstatements occurring in future periods is mitigated. An example of this would be where the misstatement has occurred</p>	M	<p>Agreed and review has already been carried out and corrections made to ensure errors are not rolled forward into future periods.</p>	September 2012 Tony Whitlock

Rec No	Recommendation	Priority	Management Comments	Implementation date and responsibility
	due to an error in a spread sheet. The spread sheet should be updated immediately so that this is not rolled forward in the next period.			
5	The Council should either reclassify the City Docks asset to a category that does not require depreciation, such as Community Assets, or the depreciation policy should be changed to recognise the treatment of the City Docks asset.	M	The policy in relation to the City Docks has been updated in the Statement of Accounts.	September 2012 Tony Whitlock
6	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.	M	Each Directorate produces detailed monitoring reports, usually at cost centre level. These are summarised to produce the high level reports to Cabinet. From the period one position in 12/13, Cabinet also receive a variance report by subjective analysis, for individual directorates and in total.	June 2012 Peter Robinson



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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

{Prepare on client letterhead**}**

Our Ref BCC/JG/GT

Your Ref

Grant Thornton UK LLP

Hartwell House

55-61 Victoria Street

Bristol

BS1 6FT

28 September 2012

Dear Sirs

Bristol City Council

Financial Statements for the Year Ended 31 March 2012

This representation letter is provided in connection with the audit of the financial statements of Bristol City Council for the year ended 31 March 2012 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.
- 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 adjusted the misstatements brought to our attention on the audit adjustments summary, attached to the ISA260 Report to those charged with governance, but not the unprocessed adjustments at Appendix B, as we do not consider that it materially affects the financial statements. 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; and
 - 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 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xiii 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.
- xiv The financial statements include three Academy Schools, funded under PFI contracts, that have been included on the Balance Sheet. The value of these assets is £56m. As with other, non-PFI Academies, the assets have been leased to Academies, but because of the PFI contracts, we remain responsible for any dealings with the PFI contractor. We are therefore of the view that we have control over the assets and have not de-recognised these.

Information Provided

- xv 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.
- xvi 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.
- xvii We have communicated to you all deficiencies in internal control of which management is aware.
- xviii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - 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.
- xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi 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.
- xxii We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Other statements

- xxiv 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