

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

9 November 2012

Report of: Strategic Director (Corporate Services)

Title: Grant Thornton's Annual Audit Letter for 2011-12

Ward: Citywide

**Officer presenting report: Peter Robinson, Service Director,
Finance**

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RECOMMENDATION

The Audit Committee note, and comment as appropriate, on Grant Thornton's Annual Audit Letter for 2011-12.

Summary

Attached to this report is Grant Thornton's Annual Audit Letter for the year ended 31 March 2012.

The Annual Audit Letter summarises the key issues arising from the work that Grant Thornton has carried out at Bristol City Council during the 2011/12 audit. The Letter is designed to communicate the key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Policy

None affected by this report. The Audit Commission has statutory responsibility for assessment at the Council. Grant Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements. In particular these are the Audit Commission Act 1998 and the Code of Audit Practice with regard to audit, and the Local Government Act 1999 with regard to best value and inspection.

Consultation

Internal: Grant Thornton consulted with Senior Officers before finalising the Annual Audit Letter.

External: not applicable.

1 Introduction

- 1.1 Grant Thornton is required to form an opinion on the Council's annual financial statements and to provide a value for money conclusion. This report summarises the work undertaken, and the conclusions from the work.
- 1.2 They have discussed the report with the Service Manager - Corporate Finance.
- 1.3 Grant Thornton's partner, John Golding, the appointed auditor responsible for the City Council's audit will be attending the Committee, and will be pleased to answer Members' questions.

Other Options Considered

Not applicable.

Risk Assessment

Not as a result of this report.

Equalities Impact Assessment

There are no issues arising from this report.

Legal and Resource Implications

None arising from this report.

Appendices:

Appendix 1: Grant Thornton's Annual Audit Letter November 2012

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Bristol City Council

Annual Audit Letter 2011/12

October 2012

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Introduction

Purpose of this letter

This Annual Audit Letter ("Letter") summarises the key issues arising from the work that we have carried out at Bristol City Council ("the Council") during our 2011/12 audit.

The Letter is designed to provide a brief overview of our key messages to the Council and external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this Letter covers

This Letter covers our 2011/12 audit, including key messages and conclusions from our work in:

- auditing the 2011/12 year end accounts
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved
- certification of grant claims and returns to various government departments and other agencies.

Responsibilities of the external auditors and the Council

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

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

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

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

Key Messages

Accounts audit

We were presented with draft financial statements and accompanying working papers on 29 June 2012.

The financial statements had 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 had been done by officers to prepare the accounts and they were of a good standard, and included good, detailed disclosures. There were a few disclosure errors and we suggested and discussed a number of disclosure changes following our work. Where agreed, these changes were made to the accounts.

There was one significant adjustment as a result of the audit. This was to increase the disclosures in the financial statements in respect of PFI Academies, so that the reader of the financial statements could determine the value of the assets involved. We intend to work with the Council during the current year to further examine the accounting treatment of these assets and the associated liabilities.

We suggested that some further improvements in the preparation of the accounts could be made:

- whilst we acknowledge that requirements for working papers are distributed across the Council, changes in auditing standards means there is increased need to ensure that documentation supports and reconciles to all items within the accounts; and

Our main audit conclusions for the year

The 2011/12 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

- we proposed that revised procedures were put in place to strengthen year end arrangements relating to property, and other areas e.g. financial instruments, to reduce the level of disclosure errors in the accounts.

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

- an over provision in the value of holiday accrual for staff;
- the misclassification of HRA debtors as external rather than internal; and
- the understatement of Icelandic Bank investments as a result of not following the most recent guidance laid out in LAAP 82.

These unprocessed adjustments were approved by those charged with governance at the Audit Committee meeting on 28 September 2012.

The actions agreed with the Council arising from the audit were included in our Annual Report to those Charged with Governance and we will follow up on progress as part of our 2012/13 audit.

PFI Academies

The Council has built three schools under PFI schemes that have subsequently become Academy schools. These are still being recognised on the Council's 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.

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.

It is accepted that this is a complicated area and we will work with the Council to further ensure the appropriate accounting treatment in 2012/13.

Whole of Government Accounts (WGA)

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

We submitted the audited WGA to the CLG by the deadline of 5 October and no issues were noted.

Value for Money audit

An unqualified Value for Money (VFM) conclusion was also issued on 28 September 2012 confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

As part of this work we reviewed the Council's arrangements for securing financial resilience, we concluded that the Council has adequate

arrangements in place to ensure financial resilience. As part of this review we provided recommendations focused on areas of improvements, including strategic financial planning and financial governance.

We also conducted targeted work to ensure that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. This work included:

- Bristol's Change Portfolio
- Implementation of Bristol's VFM Strategy
- Review of the ELENA application and supporting models
- a follow-up of VFM recommendations raised in previous years.

For each of these areas, we concluded that the Council's arrangements were adequate and, through our reporting, provided feedback and recommendations for the Council to further develop arrangements.

We will continue to review arrangements for securing VFM, focusing on key risk areas, as part of our 2012/13 audit.

Certification of claims and returns

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2010/11 certification work we reported early in 2012 that performance had generally improved against key measures but identified that the Council should work to reduce the number of claims requiring amendment.

We are currently in the process of certifying the 2011/12 grant claims and returns. Once this work is complete we will report in full on the findings of our work in a separate report to the Audit Committee.

Outputs and fees

Our audit outputs and fees are shown in Appendices A and B.

Acknowledgements

This Letter has been agreed with Council management and will be presented to Audit Committee on 9 November 2012.

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

Grant Thornton UK LLP
October 2012

A 2011/12 reports issued

Report	Date Issued
Audit Plan	February 2012
Grants Certification Plan 2011/12	June 2012
Audit Approach Memorandum (Accounts)	June 2012
Review of the ELENA application	June 2012
Review of Redcliffe Wharf Developer Selection Process	June 2012
Review of ELENA Supporting Models	September 2012
Bristol's Change Portfolio	September 2012
Financial Resilience	September 2012
Implementation of Bristol's VfM Strategy	September 2012
VfM Conclusion follow-up of previous recommendations	September 2012
Annual Report to Those Charged With Governance (ISA 260)	September 2012
Annual Audit Letter	October 2012
Grants Certification Report 2011/12	December 2012 (planned)

B 2011/12 Audit and Other Fees

Audit area	Budget	Actual
Total Code of Practice fee	£450,855	£450,855
Certification of grant claims and returns *	£50,000	To be confirmed on completion of work and reported in Grants Certification Report 2011/12
Questions and objections from the public **	£nil	£20,000
Non-audit Services	£nil	£55,000

* The quoted fee for grant certification work is an estimate only and is charged at published hourly rates.

** Work on dealing with questions and objections from the public is not budgeted for and is charged at hourly rates based on Audit Commission guidance.