

**Bristol City Council
Audit Committee
27 November 2015**

Report of: Service Director (Finance)

Title: Grant Thornton's Annual Audit Letter 2014-15

Ward: Citywide

Officer presenting report: Grant Thornton UK LLP

Contact telephone number: 0117 305 7600

RECOMMENDATION

The Audit Committee note, and comment as appropriate, on Grant Thornton's Annual Audit Letter for 2014-15.

Summary

Attached to this report is Grant Thornton's Annual Audit Letter for the year ended 31 March 2015.

The Annual Audit Letter summarises the key issues arising from the work that Grant Thornton has carried out at Bristol City Council during the 2014-15 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 Public Sector Audit Appointments website www.psaa.co.uk and also on the Council's website.

Policy

None affected by this report. 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, the Local Audit and Accountability Act 2014 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: None.

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 over the course of the year, and the conclusions from the work.
- 1.2 They have discussed the report with the Service Director, Finance.
- 1.3 Barrie Morris, 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 2014-15.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None



The Annual Audit Letter for Bristol City Council

Year ended 31 March 2015

22 October 2015

Barrie Morris

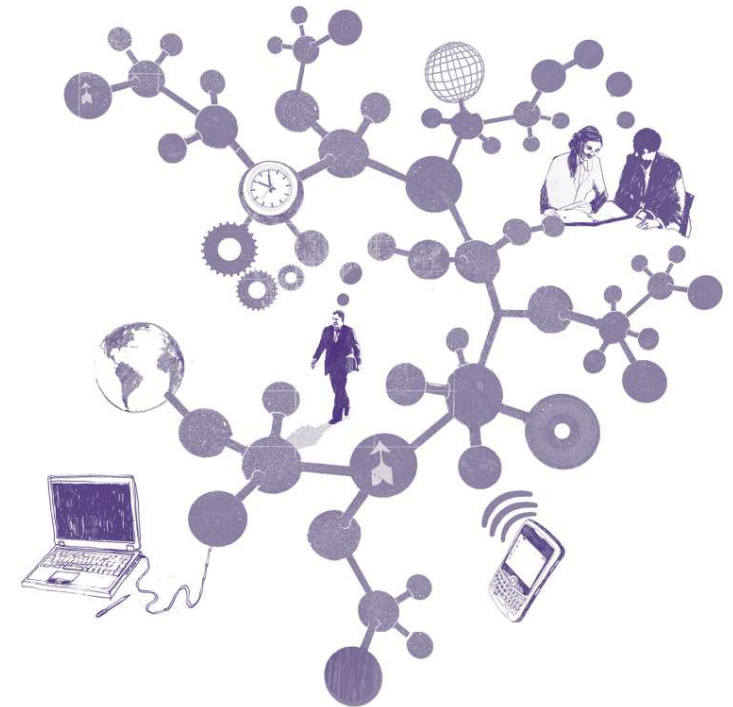
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Contents

Section

Page

1. Key messages

3

Appendices

A Key issues and recommendations

B Summary of reports and audit fees

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Bristol City Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 24 April 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We issued an unqualified opinion on the Council's 2014/15 financial statements on 25 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

During our audit, we noted the ongoing improvements being made as part of the financial services improvement planning process. We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 25 September 2015 to the Audit Committee. Our key findings related primarily to the valuation of assets. Given that the issues identified in this area were raised in previous years, the Council has agreed to address this issue to ensure there are no similar issues arising in future.

The key messages reported in our Audit Findings Report are summarised below:

- The Council employs a five year rolling revaluation programme in respect of its PPE assets, with the date of the valuations varying between 2010 and 2015. This is acceptable under the Code, provided that all assets within a class are valued simultaneously. However, our audit identified 84 assets, with a carrying value of £15.8 million, that had not been valued since before 1 April 2010, meaning they fell outside of the Council's stated policy and had not been valued in line with the Code requirements. In addition, the Council's rolling programme of valuations did not meet the Code's requirement to value items within a class of PPE simultaneously.

Key messages (continued)

Financial statements audit (including audit opinion) continued

- As part of our audit of PPE, we sought additional evidence from officers to demonstrate that the carrying value of assets did not materially differ to the fair value, where assets have not been subject to a formal valuation during the current financial year. The Council provided us with working papers that indexed assets from their previous valuation date, based upon a relevant index for the valuation methodology applied to that asset. This information suggested that the carrying value of its PPE assets were materially understated. The Council's property services team undertook additional work in this area in order to update asset valuations at the balance sheet date. This resulted in an increase in the PPE balances and revaluation reserve totalling £30.9 million.
- As in previous years, the evidence provided to us to support the PPE valuation figures within the accounts was provided late in the audit process. Given the issues identified in this area in previous years, and with similar issues in the current year, the Council should take urgent action to address the timeliness in the availability of information for future years' audits.
- Our sample testing of Property, Plant and Equipment (PPE) assets identified one asset, relating to the City Docks, that incorrectly showed a revaluation increase of £17 million, against an opening balance of £nil. Further investigation identified that this was a duplication of part of an asset already included within the PPE opening balance and therefore the revaluation gain of £17 million was an overstatement in its entirety. This revaluation gain was removed from the financial statements which has decreased both the value of the PPE balance and the revaluation reserve by £17 million.
- The Council had included a provision in its draft accounts of £12m in respect of the potential future costs arising from a claim that had been made against it. We held a number of discussions with management over the substance of this claim and the likelihood of the costs actually being incurred. At the conclusion of our audit we were informed that the Council had reached an agreement and that this provision was no longer appropriate. It was therefore removed from the final version of the audited accounts and additional disclosures were provided in the accounts.

Key messages continued

Financial statements audit (including audit opinion) continued	<p>Our audit did not identify any adjustments impacting the Council's reported General Fund balance, although there has been an increase on the original surplus reported in the Comprehensive Income and Expenditure Statement. We also identified a number of adjustments to improve the presentation of the financial statements.</p>
Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 25 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Council prepared to support the production of the Whole of Government Accounts (WGA). We reported that the Council's pack was consistent with the audited financial statements. We also reported in our Assurance Statement that the NAO Group Audit Instructions requires certain account balances within the WGA return to be fully analysed over each counter party body. The Council was unable to fully analyse one code relating to income from other government counter parties.</p>
Certification of housing benefit grant claim	<p>Our work on the certification of the Housing Benefits claim is ongoing. The key messages from our certification work will be reported in our certification report, once all work has been completed.</p>
Audit fee	<p>Our fee for 2014/15 was £271,583, excluding VAT which was in line with our planned fee for the year and the fee charged in the previous year. Further detail is included within Appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Our testing of debtors identified an issue with the workflow in the Agresso ledger system whereby aged debtors (over 90 days old) get stuck in the system with no further action taken to collect the debt. There is a risk that income is not collected by the Council due to this issue, resulting in a requirement for an increased provision or debt write offs.</p> <p>Recommendation: We recommend that the Council reviews the Accounts Receivable system and resolves the issue with the workflow that results in debtors getting stuck with no collection action taken it as soon as possible. We also recommend a review of aged debts to identify collection actions or any potential write offs.</p>	Medium	<p>This review is already underway. In July 2015, the finance service implemented a corporate debt project to review and improve the councils approach to debt management and accounts receivable. This is already delivering improved results and has resulted in the need to make a lower provision for future bad debts. The project is ongoing during the financial year, to establish an improved baseline for future years.</p> <p>Responsible officer: Service Director, Finance Due date: Implementation throughout 2015/16.</p>
2.	<p>Our testing of journals identified that not all journals are required to be reviewed or authorised by a second officer prior to being input to the ledger system. There is a risk that fraudulent or erroneous journals could be posted to the financial ledger.</p> <p>Recommendation: The Council and members should consider the current journals authorisation process and ensure that they are satisfied.</p>	Medium	<p>The current process requires all journals to be reviewed and authorised by a member of the finance team prior to posting. Journals submitted directly to the systems team are returned for review and authorisation. We believe this to represent satisfactory control.</p> <p>Responsible officer: Service Director, Finance. Due date: No further action required.</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>The Council provided us within evidence of movements in property indices for those assets that had not been subject to a formal valuation in the year. This confirmed that the carrying value of these PPE assets were materially understated.</p> <p>Recommendation: The Council should ensure that the carrying value of its PPE assets in the financial statements are not materially different to their fair value, particularly where they have not been subject to a formal revaluation in year.</p>	High	<p>Agreed. We are reviewing our policy and approach to satisfy this requirement.</p> <p>Responsible officer: Service Director Property Services Due date: December 2015</p>
4.	<p>Our audit identified 84 assets with a carrying value of £15.8 million that had not been valued in line with the Council's stated policy and had not been valued in line with the Code requirements to value its assets within a five year period. In addition, it did not meet the Code's requirement to value items within a class of PPE simultaneously.</p> <p>Recommendation: The Council should ensure that its complies with the requirements of the Code that all assets within a class are revalued at the same time and that all revaluations are carried out in line with the Council's accounting policy (i.e. at least every 5 years).</p>	High	<p>Agreed. We are reviewing our revaluation process.</p> <p>Responsible officer: Service Director Property Services Due date: December 2015</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
5.	<p>The evidence provided to us to support the PPE figures within the accounts was provided very late in the audit process, with key information not made available until 7 September 2015.</p> <p>Recommendation: Officers should provide supporting information, in a timely manner, to support the valuation of Council assets, any movements and a full reconciliation, with corroborating explanations and evidence, between the financial statements and the valuation certificate.</p>	High	<p>Agreed, as above.</p> <p>Responsible officer: Service Director Property Services/Service Director Finance</p> <p>Due date: April 2016</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	271,583	271,583
Grant certification on behalf of PSAA	11,810	*11,810
Total audit fees	283,393	283,393

* The indicative fee published by the Public Sector Audit Appointments for grant certification work required in 2014/15 for the Council is £11,810. As the work has not yet been completed on the grant certification, we therefore cannot confirm the final fee.

Reports issued

Report	Date issued
Audit Plan	24 April 2015
Audit Findings Report	14 September 2015
Value for Money report	10 September 2015
Certification Report (expected)	December 2015
Annual Audit Letter	16 October 2015

Fees for other services

Service	Fees £
Audit related services	
Teachers Pensions' Return (2013-14)	4,200
Non audit related services	
Bristol Green Capital – Business Risk Services review	8,700
Alternative Delivery Models – Advisory services	18,400



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