

BRISTOL CITY COUNCIL

External Audit Progress report prepared for the Audit Committee

Meeting scheduled for 23 June 2017

INTRODUCTION

In March earlier this year we presented our 2016/17 Audit Plan to the Audit Committee. One of the main purposes of preparing a planning document for the Audit Committee is to highlight and explain to the Audit Committee the key issues which we believe are relevant for our audit. It therefore forms a key part of our communication strategy with the Audit Committee and which is designed to promote effective two-way communication throughout the audit process.

Planning is an iterative process and therefore we routinely update our plan throughout the year to reflect changes that are relevant. This update report has been prepared to communicate the changes that have occurred since March 2017 and also to provide the members of the Audit Committee with an update of the key dates for completing the significant elements of our work.

The details of the risks that have been updated since we issued our Audit Plan in March are set out below and, in Appendix 1 we have set out the estimated dates for when we expect to complete the different elements of our work.

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UPDATE ON THE 2016/17 AUDIT PLAN

Financial Statement Risks

Since preparing our audit plan in March 2017, we have continued to assess the risks that are relevant to our audit and also responded to findings from the external quality review of our 2015/16 work.

The first two areas that have been subject to change relate to the valuation of property, plant and equipment (PPE) and to the valuation of the pension liability in connection with the local government pensions scheme (LGPS). Both of these risks were included in our March Audit Planning Document but, since issuing the plan, we have revised the level of significance of these two areas. Previously these two areas were classified as “Normal” risks but we have revised these risks to “Significant” risk due to the level of estimation that both areas contain.

Details of these two risk audit risk areas are set out below:

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED
Property, plant and equipment valuations	Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.	We will review the instructions provided to the valuer and review the valuer’s qualifications in order to confirm we can rely on the management expert.	We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.
	The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years.	We will review the valuation performed and test a sample of assets to confirm the valuation has been correctly accounted for.	
Pensions liability	The Council’s pension liability comprises the Council’s share of the market value of assets held in the Avon Pension Fund less the estimated future liability to pay pensions.	We will agree the disclosures to the information provided by the pension fund actuary.	We will agree the disclosures to the report received from the actuary.
	The pension fund liability is calculated by actuaries with specialist knowledge and experience. The calculation uses membership data held by the pension fund and uses factors such as mortality rates and expected future pay rises to calculate the liability.	We will contact the Avon Pension Fund auditor and request confirmation of the controls in place for providing accurate information to the actuary.	We will use the NAO commissioned consulting actuary report to review the actuary’s methodology and reasonableness of the assumptions.
	There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions.	We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We will obtain a confirmation from the Pension Fund auditor about aspects of the valuation of the pension fund assets and liabilities.

Group Accounts

Since issuing our audit plan in March, we have received confirmation that the provisional financial information for the Council's subsidiary undertakings confirm that the Council will be required to prepare Group Accounts for the year to 31 March 2017 (and the prior year comparative period). The relevant interests relate to the Council's 100% shareholding in Bristol Holdings Limited ("BHL") which in turn holds 100% of the shares in Bristol Waste Company ("BWC") and 100% of the shares in Bristol Energy and Technology Supplies Limited ("Bristol Energy" or "BEC").

This will be the first set of Group Accounts that will be prepared by the Council and it will be necessary to ensure that the consolidation is performed correctly. In addition, further accounting adjustments will be required where any of the Council's accounting policies differ from the accounting policies adopted by the three companies. From our perspective, we will need to audit the Group Accounts and work with auditors of the three companies (BHC, BWC and BEC) to obtain assurance in connection with financial information that will be consolidated into the Group Accounts. We will also need to obtain various confirmations in connection with a range of areas including auditor independence.

One implication of the Council needing to prepare Group Accounts will be the need for us to perform additional work. In accordance with Public Sector Audit Appointments (PSAA) rules, we will need to obtain approval from PSAA for a fee adjustment to reflect our additional costs. When this communication with PSAA is complete, we will communicate to the Audit Committee any additional fee that PSAA authorise for the additional audit work involved.

Use of Resources

In addition to the two risks in connection with the audit of the Council’s financial statements outlined above, we have considered the use of resources element of our work and added the following significant risk. This supplements those risks already reported covering financial sustainability and the risk around judgements and estimates that we have included in our Audit Planning Document.

AUDIT RISK AREAS - USE OF RESOURCES			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED
Informed decision making	<p>In our Audit Plan, we identified the risk of sustainable finances as a significant risk. In particular, the need for the Council to address a funding shortfall is a major task and increases the pressure that will arise when making judgements about estimates that will need to be included in the accounts.</p> <p>We have added as a significant risk the need to ensure that Council members are appropriately informed, and with accurate information, to enable them to effectively oversee the savings programme.</p>	<p>We had already planned to review the Council’s response to the Bundred report and ascertain whether appropriate action has been taken to address the weaknesses identified in respect of the savings plan.</p> <p>We will extend this work to assess the information provided to members to support effective decision making. In particular, we will focus upon the arrangements for ensuring that the information is accurate and understandable.</p>	Not applicable.

The risks outlined above represent variations to the risks contained in our Audit Planning Document issued in March 2017. We have brought these to the attention of the Audit Committee to ensure that the members of the Committee remain informed about the key areas of focus within our audit.

We have begun the task of setting out in detail when we will perform our audit procedures and when we plan to complete our work and report to the Audit Committee. An updated schedule of the key elements of our audit and when we expect to complete our work is set out in Appendix 1.

Appendix 1

2016/17 Annual Audit Plan - key dates

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	<p>Risk assessment and formulation of the audit plan.</p> <p>The detailed audit plan was presented to the Audit Committee in March 2017 and an update provided in this report.</p>	Complete	<p>Audit Plan 2016/17</p> <p>The plan was issued and presented to the Audit Committee in March 2017 and an update will be provided at the June 2017 meeting.</p>
Financial Statements and use of resources audit	<p>Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year.</p> <p>The deadline for the Council to prepare its draft accounts for audit is 30 June 2017. However, in preparing for the "faster close" deadline date that will be applicable in 2018 of May 2018, the Council has planned to be in the position to provide us with the draft accounts by 1 June 2017.</p> <p>The deadline for issue of our audit opinion covering the financial statements and the use of resources is 30 September 2017.</p>	Main audit visit to commence in June 2017 following receipt of first draft of the accounts in early June.	<p>Final Report to the Audit Committee</p> <p>Final ISA 260 report presented to the Audit Committee at a date to be agreed but by 30 September 2017.</p> <p>Opinion on the financial statements and use of resources</p> <p>Deadline for issuing the audit opinion is 30 September 2017.</p>
Whole of government accounts audit	<p>Audit of the consolidation pack for consistency with the audited statement of accounts. The deadline has not yet been set but is likely to be in October 2017</p>	Guidance has not yet been issued	<p>Opinion on the WGA Consolidation Pack</p> <p>Deadline is likely to be in October 2017.</p>
Annual Audit Letter	<p>Public-facing summary of audit work and key conclusions for the year.</p>	To be prepared after ISA 260 report has been presented to the Audit Committee.	<p>Annual Audit Letter</p> <p>Annual Audit letter planned to be issued in October 2017.</p>

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