BRISTOL CITY COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

10 October 2018

BDO

CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting on 16 October 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which 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 and use of resources. This report has been prepared solely for the use of the Audit Committee and those charged with governance. In preparing this report, we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the Appendices.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us now if this is not appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We are nearing completion of our planned audit procedures, which have been undertaken in accordance with the planned scope, and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks update	Since our initial Audit Planning Report was issued to you on 20 March 2018, the following risks have been identified: • NNDR appeals provision (Significant Risk) – originally reported as a normal risk. We subsequently considered this to be a Significant Risk due to the magnitude of the provision; • Risk of Fraud in Expenditure Recognition (Significant Risk) – as a public sector body the presumed risk of fraud in revenue recognition is extended to cover expenditure; and • Risk of Fraud in Revenue Recognition (Significant Risk) – originally not rebutted for all fees and charges income, now considered to be specifically around the cut-off (existence) of Adult Social Care income. No change to the risk around grant income being recognised in advance of related performance conditions being met.
Materiality	Our final materiality is £18.1m for the Council and £19.2m for the Group. Our materiality levels have not required reassessment since our audit planning referred to above.
Changes to audit approach	There were no other significant changes to our planned audit approach nor were any restrictions placed on our audit.
Group audit	Our approach as designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved. To summarise our audit coverage: • Full scope audit has been performed on the Council's accounts • We have obtained assurances from the auditors of Bristol Holdings Limited.

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified two material misstatements: • Heritage assets valued at approximately £98m that had previously been omitted from valuation but which were identified by the new insurer had been recognised during the year rather than adjusted for as a prior period adjustment (PPA), given that these assets were largely held by the Council from before the start of the financial year and, in fact, before the start of the comparison period (i.e. before 1 April 2016). • Disclosure analysis of sums relating to the final payment to the former Chief Executive (because these sums are material by nature) Management has amended the financial statements for these issues, which had no impact on the surplus/deficit on the provision of services for the year.
Unadjusted audit differences	We are required to bring to your attention audit differences that we have identified, but you are not proposing to adjust. These include: • £6.3m overstatement of pension liabilities as a consequence of 3 out of 4 of the mortality assumptions being outside of (higher than) our auditor expected range where the actuary was unable to provide any local statistical evidence as at 31 March 2018 supporting this position. • The treatment and disclosures relating to the holding of preference shares in Bristol Energy (because the preference shares are considered to be debt whilst the ordinary shares are equity, but with a residual difference in that we consider these to be "loans and receivables" whereas the Council has classified them as "Assets Held for Sale") • Other differences are included in Appendix 1 If corrected, these would increase the deficit on the provision of services for the year by £5,869.
Control environment	Our audit identified a significant deficiency in internal control relating to the valuation of investment properties. We identified that there was limited evidence of the peer review undertaken within the in house valuations team. This was due to the valuations being undertaken at an earlier period (1 December 2017) to accommodate faster closing.
Other financial reporting issues	There were: • no significant differences between the Council's accounting policies and the Code requirements; • no significant accounting policy changes impacting the current year; and • no additional going concern disclosures required.

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable finances	In addressing this risk in 2017/18, we considered the assumptions underlying the current MTFP; the Council's financial monitoring process for 2017/18; and the process for initiating, approving, implementing and monitoring savings plan proposals. We acknowledge improvements made in arrangements compared to the previous period and have concluded that we do not need to modify our opinion in respect of this component of the overall criterion. We will issue an unmodified opinion on this area.
Informed decision-making	To assess the arrangements in 2017/18, we looked at the Council's financial monitoring process and governance arrangements; looked at arrangements in place for monitoring and reporting the savings achieved against those forecast in the savings plan; reviewed the Council's progress in implementing the recommendations of the Bundred Report; and refreshed and updated our understanding of the governance arrangements in place in respect of the Council's material subsidiaries. We have no issues to report relating to these aspects of informed decision-making other than to note improvements made since last year. However, as a consequence of issues identified during the financial statements audit relating to the final payment made to the ex-Chief Executive, we have reviewed arrangements including recruitment and remuneration. This review is not yet complete but has identified that it was inappropriate to conclude that all of the payment made was contractual. Given the significance of the role involved and previous concerns relating to the processes involved in severance for a senior officer, we anticipate issuing a modified opinion in respect of this specific matter. We will issue a separate report on the details of this issue once the review has been completed.
CONSIDERATIONS RELATING TO THE USE OF SPECIAL AUDITOR POWERS	
Use of auditor powers	During the year we completed our work in respect of an elector objection relating to the Council's investment in Lender Option Borrower Option (LOBO) loans. We concluded that the loans were not illegal and so did not uphold the objection. Our considerations on whether or not to pursue use of special powers in respect of 2017/18 are not yet complete. A verbal update will be provided to the Audit Committee.

OVERVIEW

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 7, we anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018.
Other information	We propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	Subject to the completion of the Use of Resources audit, we anticipate issuing an “except for” modified opinion relating to informed decision-making on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the financial statements.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft Letter of Representation, to be approved and signed, is set out in Appendix VI.
Audit certificate	We are unable to issue our certificate until we have completed out work relating to Whole of Government Accounts and also in determining the extent to which we need to exercise our auditor powers in respect of 2017/18.

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2018, and anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit Committee meeting at which this report is considered:

1	Clearance of outstanding issues on the audit queries tracker currently with management, including queries in relation to: • Resolution of issues relating to group accounts disclosures
2	Final review and approval by you of the Statement of Accounts
3	Technical clearance on the accounts disclosures
4	Finalise conclusion on Use of Resources
5	Completion and clearance of Partner, Quality Review and technical review processes
6	Subsequent events review
7	Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS OVERVIEW

We assessed the following matters as significant audit risks, as identified in our earlier Audit Planning Report dated 20 March 2018.

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREA	SIGNIFICANT MANAGEMENT JUDGEMENT	USE OF EXPERTS REQUIRED	ERRORS IDENTIFIED	CONTROL FINDINGS	LETTER OF REPRESENTATION POINT	DISCUSSION POINTS FOR AUDIT COMMITTEE
Management override of controls	No	No	No	No	No	None
Risk of Fraud in Revenue Recognition	No	No	Yes	No	No	None
Valuation of Property, Plant and Equipment and Investment Properties	Yes	Yes	Yes	Yes	Yes	Non-significant adjustments included in Appendix 1.
Pension Fund Liability	Yes	Yes	Yes	No	Yes	No evidence for mortality assumptions being outside the auditor expected range. Unadjusted estimated error of £6.3m
Risk of Fraud in Expenditure Recognition	No	No	No	No	No	None
Non-domestic Rates Appeals Provision	Yes	No	Yes	No	No	None

AUDIT RISK AREA	SIGNIFICANT MANAGEMENT JUDGEMENT	USE OF EXPERTS REQUIRED	ERRORS IDENTIFIED	CONTROL FINDINGS	LETTER OF REPRESENTATION POINT	DISCUSSION POINTS FOR AUDIT COMMITTEE
Group Accounts	No	No	No	No	No	Work is still ongoing in this area focusing on disclosure notes and consistency of group figures with adjustments put through single entity accounts
Consideration of related party transactions	No	No	No	No	Yes	None

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	**Management override of controls**	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Our audit work in relation to journals has not identified any significant issues. We have not found any indication of management bias in accounting estimates. No unusual or transactions outside the normal course of business were identified. No evidence of fraud in accounting estimates was noted from our testing. No significant accounting transactions outside the normal course of business were noted from our work.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	**Risk of Fraud in Revenue Recognition**	Under auditing Standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges income from adult social care, recorded in the CIES with a particular focus on year-end cut off.	We tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES. We tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	Our testing did not identify any issues with the recognition of revenue.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Valuation of Property, Plant and Equipment and Investment Properties**	Management uses external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at year-end. Higher value operational properties (other land and buildings and dwellings) are revalued annually to provide assurance that carrying values are materially stated, with the remainder of non-material value assets revalued periodically (minimum of every five years). Operational asset valuations are undertaken by both external and internal valuers. We consider there to be a risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.	We reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. We confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost. We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work. For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for. Our review of the reasonableness of valuation assumptions has concluded that these are reasonable. Although we have identified two areas of difference in respect of investment properties. Investment properties have been valued as at 1 December 2018 and the valuer has undertaken a review at the year-end to determine that there have been no material movements. We have applied an appropriate index to the value of investment properties and have concluded that the value could be increased by £3.1m. This is not material and only and estimate and therefore we have included this in the unadjusted misstatements. From our sample testing of individual investment property assets we identified several properties where an incorrect yield was used. We have extrapolated this difference and estimate that the property values could be increased by £2.4m. This has been included in Appendix 1. We identified that the valuation undertaken by the in house valuations team were not subject to peer review as in the previous year. This was due to the valuations being undertaken at an earlier period (1 December 2017) to accommodate faster closing.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Pension liability assumptions**	The pension liability comprises the Council's share of the market value of assets held in the Avon Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We agreed the disclosures to the information provided by the pension fund actuary. We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. We checked whether any significant changes in membership data were communicated to the actuary. We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We did not identify any issues regarding the accuracy of the disclosures in the financial statements. Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page. The actuary has used mortality rates outside the auditor expected range as assessed nationally by PwC and therefore resulted in a the pension liability being overstated. We have concluded that assumptions are reasonable with the exception of the mortality assumptions which are outside the range. The actuary has not provided any evidence to support using assumptions as at 31 March 2018 outside of the nationally assessed range and therefore we have calculated and agreed with officers an estimated overstatement of £6.3m on the value of the pension liability. We have included a point in the draft Letter of Representation included at Appendix VI.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES				
Pension liability assumptions				
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**			**IMPACT**
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	The actuary has used the following assumptions to value to future pension liability:			
		Actual used	**Actuary range**	**PwC assessment of actuary range to market expectations**
	CPI increase	2.1%	2.1%	Reasonable
	Salary increase	3.6%	3.6%	Reasonable
	Pension increase	2.2%	2.2%	Reasonable
	Discount rate	2.6%	2.6-2.7%	Reasonable
	Mortality - LGPS:			
	- Male current	26.2 years	24.6 – 26.0	Outside the auditor expected range
	- Female current	28.8 years	27.7 - 28.7	Outside the auditor expected range
	- Male retired	23.6 years	21.9 - 23.5	Outside the auditor expected range
	- Female retired	26.1 years	24.3 - 26.2	On the high end of the expected range

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	**Risk of Fraud in Expenditure Recognition**	As a public sector body, the presumed risk of fraud in revenue recognition is extended to include the risk of fraud in revenue recognition. There is a risk that management defer expenditure into the following year in order to present a more favourable outturn and to balance the budget.	We have performed enhanced testing of expenditure recognised either side of the year-end, to ensure this has been correctly recorded in the accounting period.	No issues to report.
6	**Non-domestic Rates Appeals Provision**	Billing authorities are required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled. Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end. We consider there to be a risk for all authorities in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.	We have reviewed the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed. We have reviewed and tested the assumptions used in the preparation of the provision estimate.	We identified a small number of cases that were settled prior to the year end and therefore should have been reclassified to creditors. An unadjusted error of £1m has been included in Appendix I.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Group Accounts	The Council has a range of interests in various entities including its wholly owned subsidiaries, Bristol Holdings, Bristol Waste and Bristol Energy. The increase in the scale of these entities led to the aggregate of these entities becoming material in 2016/17 and the requirement to prepare group accounts. Bristol Energy is currently loss making and, as in 2016/17, we will need to consider whether the Council's investment in the subsidiary is held at the correct value.	The Council has concluded that group accounts will be required for 2017/18 and is communicating with the subsidiaries to ensure that the necessary information is available and in good time. We will communicate with the auditors of the subsidiaries and as auditor of the Bristol City Council Group, will issue instructions to PwC, the auditor for each of the subsidiaries. We will review the Council's investment in Bristol energy, using our valuation specialists to challenge the value in the financial statements.	Delays were encountered in receiving returns from the component auditors to confirm whether any significant issues were noted during the year. When these were received we were able to conclude that there had been no such issues. During the year, the valuation of Bristol Holdings has been impaired by £12.1m. Initially this was split out between a prior year impairment of £7m and a current year impairment of £5.1m. However, as the amount relating to the prior year is immaterial we consider that it would be correctly accounted for in the current year rather than via a prior year adjustment. This has been corrected We have also concluded that as the remaining investment is in the form of debt (7% preference shares) this should be classified as loans and receivables on the balance sheet rather than available for sale assets. We have included this in the unadjusted errors schedule at Appendix 1.
8	Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	We have reviewed the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions. We have discussed with management declarations to ensure that there are no potential related party transactions that are not disclosed. We have also asked you to include a representation to this effect in your management letter	No significant issues

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
1	Heritage assets	During the year, the Council's new insurer carried out a full valuation of heritage assets. This included a notable volume of assets that had not been included by the previous insurer and resulted in an overall value of approximately £200 million for the assets that the Council holds. This represented an increase of approximately £100 million on the previous year, with the draft financial statements reflecting this as an in-year movement. Our preliminary analytical review challenged the reason for the movement and, following review by officers, we were able to conclude that the valuation movement was not due to new assets being acquired or any notable movements in asset values, but because there had been omissions in previous years. The sums involved are material. Therefore, adjustments have been made to the accounts to reflect a prior period adjustment, with this impacting on periods before the start of the comparison period for the accounts (i.e. before 1 April 2016), so requiring a "third balance sheet" (as at 1 April 2016) for both the single entity and group accounts.
2	Valuation of investment in subsidiaries	The Council has continued to invest in its subsidiaries (Bristol Waste and Bristol Energy) through their holding company, Bristol Holding Limited. Total investment up to 31 March 2018 has been £22.9 million. We have referred the valuation approach and calculations to our specialist valuations team and we are content with the £10.8m valuation. This valuation has resulted in an impairment to the carrying value of this investment of £12.9 million. The remaining investment in the subsidiaries is in the form of 7% preference shares. We are of the view that these are akin to debt rather than equity and should therefore be classified as loans and receivables on the balance sheet. They are currently held as Available for Sale assets. We have included this as an unadjusted error in Appendix 1.
3	Remuneration report disclosure	A number if presentational changes were required to the remuneration report to ensure that the requirements of the Code have been met. All presentational changes have been updated. This included naming officers whose annualised salary was over the £150k threshold. We have reviewed documentation relating to the final payment made to the former Chief Executive including legal advice relating to the interpretation of certain contractual documents. On the basis of that documentation we concluded that it was inappropriate to determine that all of the payment made, which included both salary-related and pensions-related elements, were contractual. We have discussed proposed amendments necessary to the remuneration disclosures in the accounts, which had initially reported the whole payment within salary and pensions categories rather than within the category relating to compensation for loss of office.
4	Fraud	Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 20 March 2018.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Our audit did not identify any inconsistences between the other information in the Statement of Accounts and the financial statements.
2	We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

Our audit has identified the following significant deficiency, which is included is the action plan at Appendix II:

- The Council uses and in-house valuations team to provide valuations of its property, plant and equipment and investment properties. We identified that during the year, the Council's valuation team did not perform their usual peer review of the valuations undertaken in year. As a result, there is a risk that material errors may go undetected by the Council. We recommend that this review is reinstated and fully documented in order to provide a robust control to ensure the valuations are appropriate.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Authority for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council met this deadline. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements.

USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Planning Report issued on 20 March 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk ■ Other issue

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	**Sustainable finances (SR)**	In our audit plan, we identified sustainable finances as significant risk area. In 2017, the Council agreed to implement savings proposals designed to reduce net expenditure by more than £30 million in 2017/18. At 31 December 2017 (month 9) the Council was forecasting an adverse variance against the savings plan of approximately £3.1 million which were classified as being "at risk". The implementation of the savings proposals is part of a longer-term plan to deliver financial sustainability of the Council and further savings proposals are planned for the period to 31 March 2022. The savings plan was agreed by the Council in February 2017 when it was evident that the Council was likely to incur a 2016/17 budget deficit. This 2016/17 deficit amounted to approximately £10 million and was one factor in the decision to modify our 2016/17 conclusion on the use of resources. The Council's financial monitoring arrangements have been subject to significant strengthening over the past eighteen months. Despite elements of the savings plan being at risk, at month 9, the Council is forecasting a small underspend against its 2017/18 budget. In August 2017, the Council agreed a new medium term financial plan (MTFP) which set out the cost pressures faced by the Council and also identified areas where the Council could develop funding. For example, the Council plans to support the construction of 2,000 homes per year, which will impact upon the Council's income in the form of the New Homes Bonus and also increase the yield from Council tax in the City. The plan sets out how the Council will achieve a balanced budget over the next four years. Given a background of reduced levels of grant income combined with increased service demands, sustainable finances remains as a significant risk for our audit. In addressing this risk in 2017/18, we looked at the assumptions underlying the current MTFP; looked at the Council's financial monitoring process for 2017/18; and looked at the process for initiating, approving, implementing and monitoring savings plan proposals.	The current MTFP, published in July 2017, covers the period from 1 April 2017 to 31 March 2022 and is currently showing a funding gap for 2017/18 to 2021/22 of £42m, which is over and above the £62m of proposed savings identified as being required to balance the budget in the medium term in the 2017/18 budget. The next round of medium term financial planning is well under way, with this starting with the 2018/19 budget exercise which included producing an updated savings plan. In the plan, the savings undelivered in 2017/18 (£8m) have been rolled forward, plus additional savings of £42m have been identified. Therefore, over the period of the next MTFP (i.e. up to 2022/23), the forecast budget is balanced. The 2017/18 budget was balanced, even though £8m of forecast savings were not delivered. This was achieved by achieving offsetting savings elsewhere and through the use of non-recurring income and contingencies that were built into the budget. Although, the Council has an ambitious savings plan, it was able to balance its budget in 2017/18 and it has a balanced budget over the course of the next MTFP term to 2022/23. In addition, a robust scrutiny process is now in place through the Delivery Working Group and the Delivery Executive. Therefore, we anticipate issuing an unmodified opinion in this area.

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Informed decision-making (SR)	In our audit plan, we identified informed-decision-making as a significant risk area. Following concerns around the forecast budget deficit in 2016/17, the Council commissioned an independent review of its arrangements. The Bundred Report (issued in February 2017) identified a range of areas for the Council to address. In our 2016/17 audit we were able to confirm that significant steps had been taken to improve the arrangements but that for parts of 2016/17 the arrangements were inadequate. Accordingly we issued an adverse conclusion on the Council's use of resources. In addition, we also had concerns about the transparency of the operations within the Council's subsidiaries and whether members received the financial information that they needed to ensure effective oversight. In response to the findings within the Bundred Report, the Council has responded and has taken many steps to address weaknesses. While it is evident that significant progress has been made, the arrangements to ensure informed decision making arrangements are in place remains a significant risk for our audit. To assess the arrangements in 2017/18, we looked at the council's financial monitoring process and governance arrangements; looked at arrangements in place for monitoring and reporting the savings achieved against those forecast in the savings plan; reviewed the Council's progress in implementing the recommendations of the Bundred Report; and refreshed and updated our understanding of the governance arrangements in place in respect of the Council's material subsidiaries.	The Council's governance arrangements have evolved since the prior year. Reports on financial performance are reviewed and challenged by the Mayor before going to Cabinet. Additionally, the Oversight & Scrutiny Management Board also receive the monthly financial monitoring reports and their role is to keep "an overview of Council business including scrutinising areas of particular interest or concern, holding the Executive to account for the decisions that are made, and assisting in the development and review of Council policy." In respect of the savings plan, £8m of the forecast savings of £32m were not delivered during 2017/18, but the budget was balanced. This was achieved from offsetting savings in other areas and through the use of non-recurring income and contingencies that were built into the budget. In respect of the Bundred Report, 73 of the 85 recommendations (86%) had been implemented by 30 June and the Council are on course to implement all the recommendations by the end of the financial year 2018/19. In respect of the Council's material subsidiaries, 2017/18 was the first full year of operation of the shareholder oversight group. This group's aim is not only to improve oversight over these subsidiaries, but also to foster closer links with their respective Boards. The group has carried out a governance review and this has highlighted some areas of improvement, which are being followed up by using a detailed action plan. However, as a consequence of the issues identified during the financial statements audit relating to the final payment made to the ex-Chief Executive, we have also reviewed the arrangements in place in respect of this payment.

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
		This included reviewing documentation relating to the payment including legal advice relating to the interpretation of certain contractual documents. This concluded that it was inappropriate to conclude that all of the payment made, which included both salary-related and pensions-related elements, was contractual. Consequently, we anticipate issuing a modified opinion in respect of this specific matter at this time. The review is close to final completion now, but we are currently waiting for some further documentation from officers in respect of this review and also have some outstanding queries on this matter. We will issue our final opinion and a separate report on this specific issue once this review has been completed.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit has identified one material misstatement in respect of Heritage Assets. In addition there were two other errors adjusted by the Council:

- Heritage assets valued at approximately £98m that had previously been omitted from valuation but which were identified by the new insurer had been recognised during the year rather than adjusted for as a prior period adjustment (PPA), given that these assets were largely held by the Council from before the start of the financial year and, in fact, before the start of the comparison period (i.e. before 1 April 2016).
- Provisions made by the Council in respect of School' converting to academy status of £3m has been removed as it does not meet the definition of an provision.
- Provisions made in respect of Long Ashton Park and Ride Scheme of £1.6 million have been reclassified to trade creditors as title deed passed during the year.

This had no impact on the provision of service.

UNADJUSTED AUDIT DIFFERENCES

There are six unadjusted audit differences identified by our audit work which would reduce the deficit on provision of services by £41,000 if corrected. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE / FUND ACCOUNT		STATEMEMENT OF FINANCIAL POSITION / NET ASSETS	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on provision of services	13,270				
Unadjusted errors brought forward from the prior year:					
Overstatement to the value of PPE				8,700	(8,700)
Understatement to the value of Investment Properties				(10,300)	10,300
Net impact of b/f				(1,600)	1,600
(1) Extrapolated Error on s106 grants					
Dr Grant Expenditure	363	363			
Cr Grants received in advance					363
(2) Extrapolated error on Government grants					
DR Grants received in advance				404	
CR Grant Revenue	(404)		404		
(3) Asset uplift in relation to investment properties					
DR Investment properties				3,120	
CR Gain on fair value adjustment (OCI – General Fund)	(3,120)		3,120		
DR General Fund				3,120	
CR Capital Adjustment Account					3,120
(4) Extrapolation error on revalued investment properties					

DR Investment Properties				2,406	
CR Gain on fair value adjustment (OCI – General Fund)	(2,406)		2,406		
DR General Fund				2,406	
CR Capital Adjustment Account					2,406
(5) Accounting for the effect of the longevity assumptions being out of the PWC range					
DR Remeasurement of Pension expense (OCI)		6,299			
CR Pension Liability					6,299
(6) Extrapolation error on revalued PPE					
DR PPE				389	
CR Revaluation Reserve					389
TOTAL UNADJUSTED AUDIT DIFFERENCES	(6,258)	6,662	5,930	11,845	12,577
IMPACTING PROVISION OF SERVICE	(41)				
Deficit on provision of services if adjustments accounted for	13,229				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £000s	HRA BALANCE £000s
Balances before adjustments	20,000	71,269
Adjustments to CIES above	41	-
BALANCES AFTER ADJUSTMENTS	20,041	71,269

UNADJUSTED DISCLOSURE MATTERS
The following unadjusted disclosure matters were noted: • • Actual capital receipts are £16.7m although prior disclosure rolled forward as 19.7m as such should be adjusted. • Classification of investment in subsidiaries has been incorrectly disclosed as Available for Sale assets - £10.8m • Provisions in respect of NNDR appeals settled prior to the year-end should be classified as payables - £1m

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
Peer review of investment property valuations	There was limited evidence that the valuation undertaken by the in house valuations team were subject to peer review as in the previous year. This was due to the valuations being undertaken at an earlier period (1 December 2017) to accommodate faster closing.	Undertake and retain audit trail for a peer review of investment property valuations for the 2018/19 accounts closedown.	XXX	XXX	XXX
Starters, leavers and movers (Controcc, LiquidLogic Adult System, LiquidLogic Children System and ABW)	Leavers The leavers process is not regularly followed. There is an increased likelihood of the risk that users may accumulate permissions and leaver's accounts may not be suspended in a timely manner. Crystallisation of this risk may have resulted in a material misstatement or fraud because user accounts may have been used to: 1) process unauthorised, fraudulent or inaccurate transactions, and 2) bypass controls designed or required to segregate duties.	Leavers Management should ensure that a formal leavers process is in place. To accomplish this, a formal leavers form/ticket should be issued which must: - be submitted by authorised members of staff only (e.g. Line Managers, HR) to the relevant system administrator - outline the systems that the user currently has access and should be removed from - be formally signed off by the systems administrator once the user has been successfully removed -remain archived for at least one full year It is also advised for HR to send a list of all leavers over the past fortnight/month which should be distributed to system administrators for them to confirm that the user has indeed been removed from all relevant systems.	XXX	XXX	XXX
	Access Reviews	Access Reviews			

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
	There is no periodic review of user accounts that exist on the system, or the roles/permissions/privileges that are allocated. Due to the absence of adequately designed and implemented preventative controls, there is an increased likelihood of the risks that users do not have permissions in accordance with their role, users may have accumulated permissions through promotion or changes in role and that leaver's accounts have not been suspended in a timely manner will go unresolved. Due to the high, 30, number of users with a high level of access these should be monitored regularly to ensure that they are appropriate. Crystallisation of this risk may have resulted in a material misstatement or fraud because user accounts may have been used to: 1) process unauthorised, fraudulent or inaccurate transactions, and 2) bypass controls designed or required to segregate duties.	The user access review process should be performed by an individual who is independent of the user access set up and deletion process. The process should include obtaining a system generated user list for the respective application which specifically details the access permissions that each user has been allocated. This should be signed by management to verify that this allocation is appropriate. If any changes are required as a result of this review, this should be requested via the formal request for user modification process. This review should take place on a bi-annual basis.			
Change Management and passwords(Selima)	Change management: Sign-off and approvals before going live are done face to face and not documented. These should be documented formally. Password setting: The configurable password parameters in place for Selima are not in line with good practice and could be strengthened to increase security.	Change management: Sign off and approvals should be given formally, either over email or signed in a testing document. Password settings: We recommend improving password strength.	XXX	XXX	XXX

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
Starters, Movers and Leavers (Uniform)	There is no formal process for adding or removing users from the application and is mostly done over phone or face-to-face request. Leavers are often not brought to the attention of administrators and will remain on the application until a review is carried out. Access reviews are not formally documented and are ad hoc, often performed when an update goes live.	New user requests should be formally documented through a new user form filled out by the users manager outlining what access is required. The form should be kept for records. There should also be a leaver form or notification from HR when a user leaves to ensure that they are removed from the application in a timely manner. Regular access reviews should be performed regularly and be formally documented and signed off. Any changes as a result of these reviews should go through the standard processes.	XXX	XXX	XXX
Change management - Liquidlogic Children System	No documentation of the change process could be provided by Bristol City Council.	When a change to the system is implemented it should be logged in the ticketing system and progress and steps should also be recorded. Therefore there is a list of all changes and it can be easily checked.			

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	UPDATE
Property Valuation	Property revaluations were performed at the opening balance sheet date and therefore a large adjustment was made to correct this.	The Council should in future perform valuations of all assets as at 31 March or prepare evidence to demonstrate that a different date does not have a material impact	Property valuations were performed as at 1 December 2017 for the 2017-18 financial statements.
Value of investment in Bristol Holdings Limited	The Council has not charged the loss in value of its interests in Bristol Holdings to expenditure in the year	The accounting treatment of the Council's interest in Bristol Holdings should be reviewed and further evidence provided if the Council maintains this should not be a charge against expenditure.	As part of the preparation of the 2017-18 statement of accounts, the carrying value of Bristol Holdings Limited was reviewed and subsequently impaired.
Selima – Change management	For the Selima application, there is a need to strengthen the arrangements for approving and signing off changes to access to the system.	Formalise the change arrangements and ensure approvals are held on file	
Systems access rights	The process for deleting access rights for staff who leave the Council's employment needs to be made clearer. This recommendation is applicable to many of the Council's applications.	Access rights to IT systems need to be removed for leavers.	
Use of Resources	The 2017/18 year to date financial monitoring arrangements indicate that the Council has an adverse budget variance of approximately £3 million at 30 June 2017. Accordingly, this area must remain an area of key focus	This variance therefore indicates that more needs to be done to strengthen the budgetary control arrangements.	
Use of Resources	The arrangements that the Council has developed to ensure clear and effective financial monitoring should kept under review.	Feedback from the different member groups should be obtained to ensure that the reports provide the information that is needed in an appropriate format.	

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	UPDATE
Use of Resources	The oversight arrangements for the subsidiaries, including the role of the Council's Audit Committee in overseeing the subsidiaries, should be reviewed.	In particular, the Audit Committee needs to have oversight of these operations which are increasing in scale and complexity. Internal Audit should also include within its remit the review of the Council's subsidiaries activities.	

APPENDIX III: MATERIALITY

MATERIALITY - COUNCIL

	FINAL	PLANNING
Materiality	18.1 million	18.0 million
Clearly trivial threshold	£362,000	£360,000

Materiality for the Council has been based on 1.65% of actual gross expenditure in 2017/18 of £1,096 million.

The clearly trivial amount is based on 2% of the materiality level.

Materiality has been revised to reflect the final outturn

MATERIALITY - GROUP

	FINAL	PLANNING
Materiality	£19.2 million	£18.8 million
Clearly trivial threshold	£384,000	£376,000

Planning materiality of £18.8 million was based on 1.65 of gross expenditure, using prior year outturn.
Materiality has been revised to reflect final outturn.

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council and the Group during the period and up to the date of this report were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	208,687	208,687	203,687	
Fee for reporting on the housing benefits subsidy claim	20,427	20,427	20,427	
TOTAL AUDIT AND CERTIFICATION FEES	**229,114**	**229,114**	**224,114**	
• Teachers Pension Scheme certification fee	7,950	7,950		
• DfT major transport scheme	5,200	5,200		
NON-AUDIT ASSURANCE SERVICES	13,150	13,150	Nil	
TOTAL ASSURANCE SERVICES	**242,264**	**242,264**	**224,114**	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

XX October 2018

Dear Sirs

Financial statements of Bristol City Council and the Group for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- CPI increase: 2.1%
- Salary increase: 3.6%
- Pension increase: 2.2%
- Discount rate: 2.6%
- Mortality: male current 26.2 years, female current 28.8 years, male retired 23.6 years and female retired 26.1 years

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We confirm that the above representations are made on the basis of enquiries of management and staff 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 above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that, so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Denise Murray

Director of Finance (s.151 Officer)

[Date]

Councillor Olly Mead

Chairman of the Audit Committee

Signed on behalf of the Audit Committee

[Date]

APPENDIX VII: DRAFT AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BRISTOL CITY COUNCIL

[INSERT IF MODIFIED]

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

David Eagles
Engagement lead

T: +44(0)1473 320728
M: +44(0)7967 203431
E: David.Eagles@bdo.co.uk

Donald Plane
Director

T: +44(0) 2380 881 810
E: donald.x.plane@bdo.co.uk

Chris Wlaznik
Manager

T: +44 (0)117 9306728
M: +44 (0)7970 115223
E: Chris.Wlaznik@bdo.co.uk

www.bdo.co.uk