

# Audit Update Report

Bristol City Council  
Year ending 31 March 2019

July 2019



## Contents



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### Section

1. Financial Statements – Significant audit risks
2. Financial Statements – Other areas
3. Value for money
4. Audit timeline

### Page

3

7

9

10

# Financial Statements – Significant audit risks

This section includes confirmation of the significant risks identified in respect of the financial statements audit and the progress against these at July 2019.

Risk	Details	Update
<p><b>The revenue cycle includes fraudulent transactions (partially rebutted)</b></p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition at the Council can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Bristol City Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Bristol City Council.</p> <p>We have also rebutted this risk for certain Group entities, as we do not consider there to be a risk of material misstatement due to fraud relating to revenue recognition for the following reasons:</p> <p>Bristol Waste Company Limited – the majority of the Company’s revenue is derived from contracts held with the Council that are agreed in advance at an agreed price based. Upon consolidation, revenue at a Group level is immaterial.</p> <p>Bristol Holding Limited – revenue for the company is significantly below our Group materiality level.</p> <p>We consider that the risk of fraudulent revenue recognition exists at Bristol Energy Limited due to the significance of the company’s turnover and the estimation required in recognising accrued income. We have therefore identified the occurrence and accuracy of Bristol Energy Limited’s income as a significant risk to the group</p>	<p>We have considered the Group’s material revenue streams and have not altered our assessment of the risk that is set out in the ‘Details’ column.</p> <p>We communicated our Group level risks and materiality to the Group component auditors, PricewaterhouseCoopers LLP (PWC). We have received confirmation from PWC that they are concluding their audits of the Group components and expect receipt of their final findings and audit reports for the entities on 17 July 2019. PWC have not made us aware of any findings in respect of the risk of fraudulent revenue recognition that would have an impact on the Group’s financial statements.</p> <p>Following receipt of PWC’s audit reports, we will review the Group’s consolidation workings to ensure that all inter-group transactions are appropriately eliminated within the Group financial statements.</p>

# Financial Statements – Significant audit risks

This section includes confirmation of the significant risks identified in respect of the financial statements audit and the progress against these at July 2019.

Risk	Details	Update
<b>Management over-ride of controls</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>analysed the journals listing and determine the criteria for selecting high risk unusual journals; and</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>We will:</p> <ul style="list-style-type: none"> <li>test our sample of unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> </ul> <p>Our review of the controls over journal entries has identified that not all journals require authorisation prior to being posted to the financial ledger. We have discussed this management and will include a recommendation in our Audit Findings Report that we will provide to the Audit Committee in September 2019.</p>
<b>Valuation of land and buildings</b>	<p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified the valuation of land and buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>met with the valuer to discuss the basis on which the valuation programme for 2018/19 was carried out; and</li> <li>selected our sample of revaluations performed in year and shared this with management who have provided the individual valuation schedules for each of these assets.</li> </ul> <p>We will:</p> <ul style="list-style-type: none"> <li>challenge the information and assumptions used by the valuer in respect of our sample of assets;</li> <li>test our sample of revaluations to confirm that they have been input correctly into the Council's asset register to ensure the appropriate accounting treatment;</li> <li>evaluate the assumptions made by management for those assets not revalued during the year and consider how management has satisfied themselves that these are not materially different to current value at year end; and</li> <li>use the information provided by our management expert (Gerald Eve) to assess the reasonableness of management's assumptions.</li> </ul>

# Financial Statements – Significant audit risks

This section includes confirmation of the significant risks identified in respect of the financial statements audit and the progress against these at July 2019.

Risk	Details	Update
<b>Valuation of net defined benefit pension liability</b>	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>documented our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation, with the assistance of our auditor's expert;</li> <li>assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.</li> </ul> <p>We will:</p> <ul style="list-style-type: none"> <li>undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as our auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>receive assurances from the auditor of the Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>We have also discussed the implications of the McCloud / Sergeant ruling with management and more widely with the sector as a whole. The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. The legal ruling around age also has implications for other pension schemes where transitional arrangements on changing benefits were implemented, including the Local Government Pension Scheme.</p> <p>The Government applied to the Supreme Court for permission to appeal the decision but this was rejected in June 2019 which confirmed that there was a present obligation to pay additional benefits to scheme members affected, and that it is probable that there will be an outflow of cash as a result of this ruling.</p> <p>Management have discussed the implications of the current situation with their actuary and have requested additional information from them in order to ascertain whether the net defined pension liability could be materially understated.</p>

# Financial Statements – Significant audit risks

This section includes confirmation of the significant risks identified in respect of the financial statements audit and the progress against these at July 2019.

Risk	Details	Update
<b>Incomplete or inaccurate financial information transferred to the new HRA system</b>	<p>In October 2018, the Council implemented a new system to hold the financial information relevant to the Housing Revenue Account. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the HRA system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• engaged our IT audit specialists who have completed an information technology environment review to document, evaluate and test the IT controls operating within the Council. We will report the findings from this review to the Audit Committee in September once management responses have been received; and</li><li>• mapped the closing balances from the previous system to the opening balance position in the new system to ensure accuracy and completeness of the financial information contained in the new system.</li></ul>
<b>Valuation of long term investments</b>	<p>Following our Audit Plan which was issued in January 2019, we obtained a further understanding of the Council's long term investments which include an unquoted equity investment and also the Council's investment in Bristol Energy.</p> <p>These are by their nature hard to value estimates, and management have estimated their value based on a range of estimation techniques.</p> <p>We have identified the valuation of the Council's long term unquoted investments as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• discussed the valuation techniques adopted with management and obtained their calculations for the valuation of the unquoted equity investments; and</li><li>• engaged our internal valuations experts to review management's estimates and to provide us with assurance over the valuation of the Council's unquoted equity investments.</li></ul> <p>We will:</p> <ul style="list-style-type: none"><li>• review the findings of our internal valuation experts to obtain sufficient assurance over the valuations included within the Council's Balance Sheet.</li></ul>

# Financial Statements – Other areas

This section provides an update on our other areas of testing of the financial statements that is underway and complete at July 2019.

Area	Update
Employee Remuneration expenditure	<p>We have:</p> <ul style="list-style-type: none"><li>• selected our sample of individual payroll transactions and have provided this to management who are compiling appropriate evidence to support the expenditure; and</li><li>• requested supporting payroll evidence for the disclosure of remuneration senior officers and the bandings of employees who earn over £50k.</li></ul>
Welfare expenditure	<p>We have:</p> <ul style="list-style-type: none"><li>• completed our testing of a sample of payments made to claimants in year and have not identified any issues;</li><li>• reviewed the parameters within the welfare benefit system to ensure that they had been appropriately updated to the correct 2018/19 values; and</li><li>• reconciled the 2018/19 subsidy claim form to the welfare benefit system and the financial statements.</li></ul>
Council Tax, NNDR and Housing Rents revenue	<p>We have:</p> <ul style="list-style-type: none"><li>• completed our substantive analytical procedures on the revenue recognised in the financial statements and reconciled income to the Council's revenues system; and</li><li>• completed our testing of precepts and levies.</li></ul>
Grant revenue	<p>We have begun our sample testing of grant revenues recognised in year and are awaiting information from management in respect of the queries raised in respect of this work.</p>
Fees and charges revenue	<p>We have selected our sample of fees and charges revenue and have provided this to management who are compiling the relevant evidence to support the revenue recognised.</p>
Property, plant and equipment	<p>We have:</p> <ul style="list-style-type: none"><li>• completed our sample testing of properties back to deeds to evidence the Council's ownership;</li><li>• completed our testing of reclassifications of assets between categories in year; and</li><li>• completed our sample testing of capital additions made in year.</li></ul>

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# Financial Statements – Other areas

This section provides an update on our other areas of testing of the financial statements that is underway and complete at July 2019.

Area	Update
Borrowings	We have reviewed the Council's loan agreements and requested confirmations from the Council's lenders over the year end balances.
Reserves	We have completed our Movement in Reserves working paper to provide assurance over the movements recognised in the Movements in Reserves Statement and other notes to the financial statements to ensure that they are in line with our expectations and are internally consistent.
Review of the draft financial statements	<p>We have:</p> <ul style="list-style-type: none"><li>• reviewed the draft financial statements for internal consistency, mathematical accuracy and confirmed that prior year comparators agree to the audited 2017/18 financial statements; and</li><li>• engaged our technical team to undertake a review of the draft financial statements.</li></ul> <p>We have provided the comments from these reviews to management who have returned their responses to the queries and issues identified.</p>
Opening balances	We have contacted the Council's previous auditors, BDO, in order to arrange a handover meeting as previously reported to the Audit Committee. On 16 July 2019, BDO responded to confirm that we could arrange this handover and review of their 2017/18 audit file. We responded on the same day and have scheduled to complete this review on 5 August 2019.
Member training	We will be providing training to members on the Council's financial statements and the Audit Committee's role as 'Those Charged With Governance' on 25 July 2019.



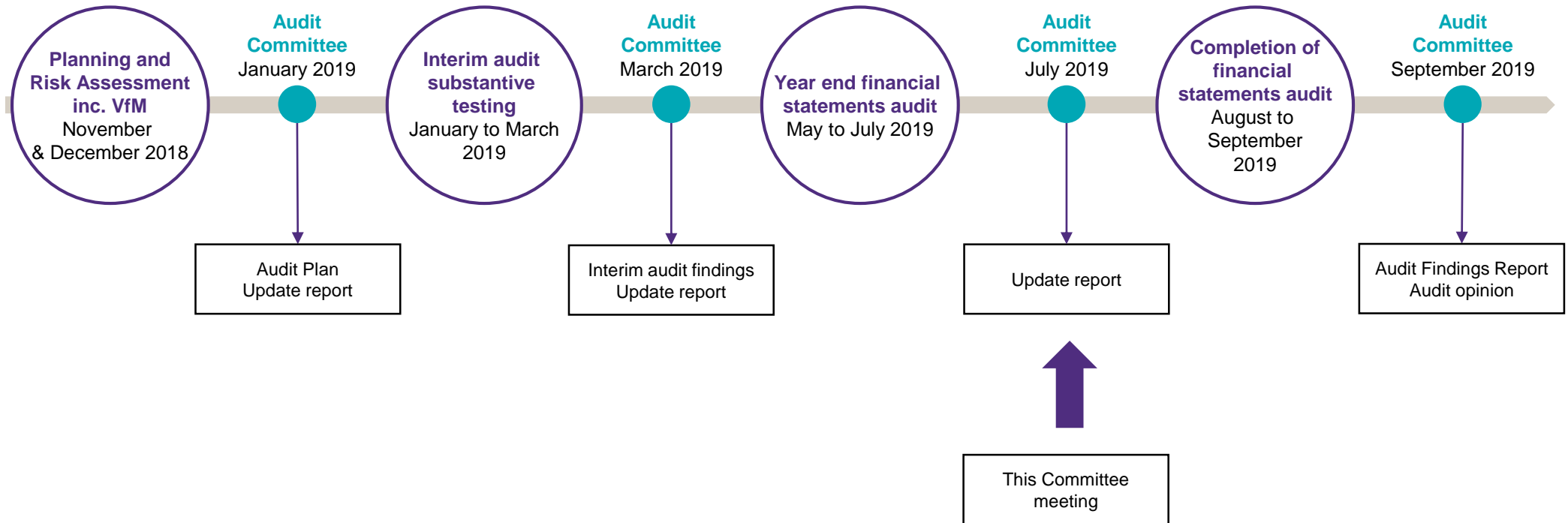
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# Value for Money

This section provides an update on our work on the Council's Value for Money Conclusion that is underway and complete at July 2019.

Risk	Details	Update
<b>Financial planning and future financial sustainability</b>	<p>The Council continues to need to meet the challenges of increasing demand for certain services against a backdrop of reducing Government funding as a result of the continued effects of austerity.</p> <p>The Council's medium term financial plan identifies revenue shortfalls in the sort to medium term that will require financing. The Council also has a significant capital programme over the medium term that will be key to ensuring the Council achieves its role in shaping the city.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• begun our review of documentation, including the Council's 2018/19 outturn report for both revenue and capital and also the Council's latest Medium Term Financial Plan, including the assumptions included within the future revenue budgets;</li><li>• considered the Council's capital plan.</li></ul> <p>We will:</p> <ul style="list-style-type: none"><li>• continue to consider the Council's financial reporting and update our review of financial performance to the date of our audit report.</li></ul>
<b>Governance arrangements at the Council</b>	<p>Following our Audit Plan which was issued in January 2019 and subsequent to the previous auditor's Statutory Recommendations which were issued in March 2019, we identified governance arrangements at the Council to be a significant risk to the Value for Money conclusion.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• discussed the risk with management and agreed a timeline for completion of the work that will allow management an opportunity to begin to implement that actions that were agreed in respect of the Statutory Recommendations.</li></ul>

# Audit Timeline



As previously discussed with the Audit Committee, we agreed an extended timetable for the completion of our audit in 2018/19. The above timeline was also reported to the Audit Committee in May 2019. We have continued to discuss this with the Director of Finance and Public Sector Audit Appointments (PSAA).

