Public

The Audit Findings for Bristol City Council

Year ended 31 March 2019

May 2020

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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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bristol City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance. We have previously reported draft findings to the Audit Committee at previous meetings and updated members on the progress of the audit. This version updates those previously issued reports to give the latest position of the audit, with the majority of queries now resolved.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our findings to date are summarised on pages 4 to 15. We have identified adjustments to the financial statements that impact the Council's main financial statements, and details of all non-trivial audit adjustments identified to date are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. We are awaiting receipt of our management representation letter prior to issuing our audit report, which we anticipate will be unqualified. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Bristol City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 16 to 25.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We are unable to issue our completion certificate until we complete our review of the Council's Whole of Government Accounts return and issue our opinion on the Council's 2018/19 financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff to date during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents have been discussed with management. The report sets out some of the complexities of the audit and the issues identified.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group’s gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that audit procedures for Bristol Holdings Limited, Bristol Waste Company Limited and Bristol energy Limited were required, which were completed by PricewaterhouseCoopers LLP as the companies’ auditor; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations remain the same as reported in our audit plan.

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements	£17,500,000	£16,500,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year. Recognising the size and scale of the Council, we deemed that 1.5% was an appropriate rate to apply to the expenditure benchmark. We also applied this to the Group.
Trivial matters	£875,000	£825,000	5% of materiality was deemed an appropriate level for triviality.
Materiality for senior officer and director remuneration disclosures.	£17,000	£17,000	A lower level of materiality was determined for the Senior Officer Remuneration salary disclosures in the single entity accounts and the director remuneration salary disclosures in the group accounts due to the sensitivity surrounding these disclosures.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (partially rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bristol City Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Bristol City Council. We 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: • 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. • Bristol Holding Limited – revenue for the company is significantly below our Group materiality level and relates to interest income and management charges payable. Given the low value of revenue and it's nature, we do not consider this a significant risk. We considered that the risk of fraudulent revenue recognition existed at Bristol Energy Limited due to the significance of the company's turnover and the estimation required in recognising accrued income. We therefore identified the occurrence and accuracy of Bristol Energy Limited's income as a significant risk to the group. We communicated this to the company's auditor PricewaterhouseCoopers LLP who undertook procedures as part of their audit of the company which included: • performance of a 'top-down' recalculation of revenue recognised by Bristol Energy Limited; • sample testing of customer records within the billing system; and • sample testing of unbilled revenue to subsequent post-year end billings. No issues were identified.
Management override of controls 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. 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.	We: • evaluated the design effectiveness of management controls over journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. PricewaterhouseCoopers LLP also performed procedures at the Group entities in respect of the non-rebuttable significant risk in respect of management override of controls. No issues were noted at the Group level. We have raised a control recommendation in respect of the authorisation of journal entries in Appendix A.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings 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. 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. Note that this risk also relates to the valuation of investment property assets, as well as operational land and buildings.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end, engaging our own valuation expert to provide us with additional assurance over the assumptions made. The Council's valuer undertook valuations as at 1 October 2018, and then undertook a desktop review of these valuations at 31 March 2019. This identified a material downward movement in the valuation of HRA assets of £28.4m and a material uplift of other land and buildings not valued at year end of £27.2m at 31 March 2019. We engaged an external valuation expert to review the approach taken by the internal valuation expert which provided additional assurance over the assumptions adopted. Management had not reflected the movements identified by the desktop review in the draft financial statements as the net movement of £1.2m was not material, however this meant that the individual asset categories were materially misstated in the notes to the financial statements. Management have therefore updated the notes to the financial statements to reflect the £27.2m uplift in land and building valuations and also adjusted the HRA valuations down by £27.2m. This left an additional £1.2m reduction in the value of HRA assets that was not posted to the financial statements and remains an unadjusted misstatement. There were no changes made to the Balance Sheet. The desktop review also identified that investment assets were £2.5m overstated. No changes were made to the Balance Sheet in respect of Investment Assets. Further details can be found in Appendix B. Upon further review of the valuer's desktop review, and when comparing the indices used as part of this review back to source evidence, we identified a number of the indices used were incorrect. Using the corrected indices the movement in land and building and surplus assets should have been an increase of £23.8m rather than the £27.2m included in the valuer's report. The financial statements were not updated for this change. As such, there is a further £3.4m unadjusted overstatement in the Balance Sheet relating to property, plant and equipment. We also identified that not all assets subject to valuation had been valued within the five year rolling programme for land and buildings, or at year end for investment properties, as required by the CIPFA Code. We challenged management's assessment as to why no material valuation issues arise and are satisfied that there are none. We have raised a recommendation in respect of the valuations programme in Appendix A.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Incomplete or inaccurate financial information transferred to the new HRA system 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. We therefore identified the completeness and accuracy of the transfer of financial information to the HRA system as a significant risk. Upon review of this risk from our planning stage, we did not consider this risk to be a key audit matter after completing our work as there were no significant judgements made in the transfer of financial information.	We: • mapped the closing balances and accounts 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; and • engaged our IT audit specialists to document the general IT controls in place at the Council, including the new system. We have no significant findings to report in respect of this significant risk. Our IT colleagues raised recommendations relating to the Council's wider IT general control environment, though none of these were significant. Management accepted these recommendations, noting that in part that these issues had arisen due to staffing shortages. We discussed these with management who implemented actions in 2020 to address the staffing issues. Given none of the findings were IT general controls findings were significant, no further risks were identified.
Valuation of long-term investments 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 Limited. These are by their nature hard to value estimates, and management have estimated their value based on a range of estimation techniques. We have identified the valuation of the Council's long term unquoted investments as a significant risk. Following our planning review we considered that this risk was one of the most significant assessed risks of material misstatement and a key audit matter.	We: • discussed the valuation techniques adopted with management and obtained their calculations for the valuation of the unquoted equity investments; and • 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. We are satisfied that management's estimated valuations are within our expected range at 31 March 2019, noting that they are on the more prudent end of our estimated range. The Council's opening valuation for the unquoted equity investment upon reclassification at 1 April 2018 is £4m lower than the range identified by our valuation expert. The Council has not update their financial statements and this is shown as an unadjusted misstatement, however this is not material to our audit opinion. More detail can be found at page 38. We have raised a recommendation to management in Appendix A in respect of engaging valuation experts in future years in order to value the investments.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of net defined benefit pension liability 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. 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. 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.	We: • updated 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 evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • 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; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report; and • obtained 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. As noted later in our report, management obtained an updated valuation of their pension liability to reflect the additional pension liability attributable to Bristol City Council following the McCloud / Sergeant judgement which was made following the production of the draft financial statements. This also took into account more up to date assumptions, including the actual return on scheme assets, and the updated actuarial report led to an increase in the net defined pension liability of £32.7m. More information can be found on page 10. The Council's actuary, Mercer, did not include the post-2021 allowance impact in respect of Guaranteed Minimum Pensions in their calculation of the net defined benefit pension liability. Had this been included, the net defined benefit pension liability could have been £5.4m higher. We have included this as an unadjusted misstatements and more information can be found on page 38.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings at valuation: **Other Land and Buildings - £559.5m** **Council Dwellings - £1,691.5m** **Surplus Assets - £42.4m** **Investment Properties - £249.3m**	Other land and buildings comprises £279.8m of specialised assets such as schools and libraries which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£279.7m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council also values its council dwellings (£1,691.5m) annually using the beacon principles. Surplus assets and investment properties are valued at fair value annually. The Council engaged their internal valuers to complete the valuation of properties as at 1 October 2018 as part of the five-yearly cyclical programme. 83.4% of assets held at valuation were revalued during 2018/19. The valuation of these assets (including investment properties) has resulted in a net decrease in value of £2.4m. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 1 October 2018 by applying indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets revalued has identified a significant decrease in the value of council dwellings between the valuation date and year end and a significant increase in the valuation of other land and building not revalued during the year. Amendments were made to the draft financial statements to partially reflect these changes – see page 41 for more detail.	We have undertaken a review of the work of management's internal expert. This assessment includes a review of their experience, capabilities and independence to the Council. We have not identified any issues in these areas. Our review also considers the assumptions adopted by the expert. This includes a review of the consistency of the estimates with those provided to us by Gerald Eve as an auditors expert. No issues have been identified in respect of this work. We have confirmed the completeness of the data provided to the valuer by agreeing the amounts submitted for valuation back to the fixed asset register. As the Council use their internal valuer they have access to all required and held property details on the Council's systems. Some trivial differences were noted in this review. The valuer updated the relevant valuations and the differences were below our trivial level and we therefore obtained sufficient assurance that these valuations were not materially misstated. We have tested individual asset revaluations to confirm that the treatment of these assets within the financial statements is correct. We have reviewed amounts to ensure the asset register and the valuation reports agree as well as reviewing the treatment in the Council's reserves. Again, we identified some trivial differences between the valuation reports and the asset register. We are satisfied that we have sufficient assurance that these differences, individually and cumulatively with those identified above, do not result in a material misstatement. We also reviewed the work undertaken by the Council's valuer in order to ascertain whether there has been a material movement in asset values from the date of last valuation to the Balance Sheet date. Our work in this area led us to engage our own external valuations specialists to support us in reviewing the assumptions and methodologies adopted by management and the Council's valuer. The Council's desktop review identified a material downward movement in the valuation of HRA assets of £28.4m and a material uplift of other land and buildings not valued at year end of £27.2m at 31 March 2019. Management had not reflected the indexation movements in the draft financial statements and this meant that the individual asset categories were materially misstated in the notes to the financial statements. Management have therefore updated the notes to the financial statements to reflect the £27.2m uplift in land and building valuations and also adjusted the HRA valuations down by £27.2m. This left an additional £1.2m reduction in the value of HRA assets that was not posted to the financial statements and remains an unadjusted misstatement. The exercise also identified that Investment Properties were overstated by £2.5m. There were no changes made to the Balance Sheet. Further details can be found in Appendix B.	● Amber

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability **£977.6m**	The Council's net pension liability at 31 March 2019 following the adjustments for the McCloud / Sargeant judgement is £977.6m (PY £832.4m) comprising the Council's share of the Avon Pension Fund Local Government Pension Scheme (LGPS) and the LGPS and Teacher's Pension unfunded defined benefit pension scheme obligations. The Council use their actuary Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £91.7m actuarial remeasurement of the net pension liability recognised in the Comprehensive Income and Expenditure Statement in 2018/19.	We have reviewed the estimate, undertaking tests on the asset and liability elements of the net liability. Using analytical procedures, we have compared actual results with expectations and estimates applied by the actuary and have concluded that the results are reasonable. We have reviewed the work of Mercer, through the use of an auditor's expert, PricewaterhouseCoopers LLP (PwC). We have undertaken an assessment of actuary's roll forward approach, including work to confirm reasonableness of the approach. We also considered the assumptions applied by the actuary in their 2018/19 IAS 19 pension liability calculation against those independently assessed by our auditor expert, and the results are set out below.	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4 – 2.5%	Green
Pension increase rate	2.3%	2.2 – 2.3%	Green
Life expectancy – Males currently aged 45 / 65	23.7 / 26.3	22.2 – 23.7 / 24.8 – 26.3	Green
Life expectancy – Females currently aged 45 / 65	26.2 / 29.0	25.0 – 26.4 / 27.9 – 29.0	Green

We have undertaken checks on the completeness and accuracy of the underlying information used to determine the estimate in order to determine the reasonableness of increase in the estimate. We have also ensured adequacy of the disclosure of the estimate in the financial statements.

We have reviewed the Council's updated financial statements following receipt of their updated IAS 19 report in respect of the impact of the McCloud / Sargeant judgement and including the use of the actual return on scheme assets rather than an estimate. We have also considered the assumptions and methodology employed at calculating this impact. We did not identify any issues in respect of this updated calculation.

We also considered the impact of Guaranteed Minimum Pension on the Council's pension liability and are satisfied that there would not be a material impact on the Council's net defined pension liability arising from the application of other assumptions. The actuary has only included pre-2021 allowances in their calculations in respect of GMP, whilst we believe that the post-2021 allowances should also be included. If the impact of post 2021 allowances were included, the pension liability would have increased by circa £5.4m which is not material.

We obtained assurance from the auditor of Avon Pension Fund over the processes and controls in place at the Pension Fund, including those around member data and the information provided to the actuary. We also confirmed that the pension fund auditor had undertaken testing of the Pension Fund's Level 3 investments. The only issue reported related to a £2.4m difference between asset valuations and evidence obtained. When applied to the Council's share of assets at year end the difference is £867k.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £26.913m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We reviewed management's calculation and determined that the percentage of successful claims was the key assumption made by management. We reviewed the percentages applied in the calculation of the provision and were only able to corroborate 3 of the 12 percentages applied to supporting data. We challenged management on how they had derived the remaining percentages and it transpired that management had rolled forward percentages from the prior year. We therefore reviewed the current year data list from the VOA to identify appropriate percentages from past completed claims. From this review we identified that the higher the value of the claim, the more likely it was to succeed and we devised our own percentages from the VOA data based upon this finding. We then used these percentages to develop a point estimate with which we could compare to management's calculation. Our calculation resulted in a required provision that was c.£3m higher than management's. The financial statements were not updated to reflect this adjustment.	● Amber

The Council includes details of the critical judgements in applying accounting policies in Note 3 of the financial statements. We reviewed this note and narrative updates were made to the Note to clarify the judgements being made. In our view, the judgement in the draft financial statements in respect of the City Region Deal was not a significant judgement rather the application of an accounting policy. The judgement previously included in respect of the valuation of companies was also removed as this was again an issue relating to the application of an accounting standard rather than a significant judgement. Management agreed and removed these disclosures in the final version of the financial statements. The Council has not disclosed any significant judgements made in concluding that there remain no material uncertainties relating to Covid-19 in the financial statements which we would have expected, however we are satisfied that there are no material uncertainties.

The Council discloses assumptions made about the future and other major sources of estimation uncertainty in Note 4 of the financial statements. Disclosures in the draft financial statements in respect of business rates and the bad debt provision did not give rise to a significant risk of material misstatement in future periods and as such did not give rise to significant estimation uncertainty under IAS 1 and so were removed. In the updated draft accounts it is not clear for all of the disclosures what what the impact of a change in assumptions could have, and in line with IAS 1 we would expect each disclosure to reflect a range of reasonable possible outcomes or to give some examples of the sensitivity of the carrying amounts to the methods, assumptions and/or estimates underlying their calculation. These have not been included in all cases.

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
McCloud / Sergeant ruling and the impact on the net defined benefit pension liability	The Court of Appeal 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, and this includes the Local Government Pension Scheme. The Government applied to the Supreme Court for permission to appeal 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. We discussed the implications of this with management and more widely with the sector as a whole to ensure consistency. We requested that management discuss the implications of the current situation with their actuary and they obtained additional information from them in order to ascertain whether the net defined pension liability could be materially understated. The updated IAS 19 calculations undertaken by the actuary identified that the defined net benefit pension liability was understated by £32.7m.This included the impact of the McCloud / Sargeant judgement as well as using more up to date assumptions, including the actual return of scheme assets for the year. Management updated the financial statements to reflect this increased liability. Further detail on the adjustments can be found in Appendix B.
Bristol Energy guarantees	The Council has entered into a number of Parent Company Guarantees (PCGs) in respect of Bristol Energy Limited with energy suppliers. The Council originally disclosed these PCGs as a contingent liability in Note 38 of the financial statements. We challenged management's conclusion that the PCGs were a contingent liability and requested that management consider the PCGs under IFRS 9 – Financial Instruments – and IFRS 4 – Insurance Contracts. The Council undertook a review against these accounting standards and concluded that the PCGs came into the scope of IFRS 9 and we concluded that it was appropriate that these agreements formed financial liabilities as the PCGs are a contractual obligation to pay cash to the suppliers of Bristol Energy Limited contingent on the failure of Bristol Energy Limited to fulfill its contractual obligations. The liabilities would be accounted for as fair value through profit and loss. The Council have used a probability weighted assessment to derivate the potential financial liability at 31 March 2019, being £854k. We have considered this assessment and have concluded that it is a reasonable estimate. We have also considered the Council's assessment and based upon the exposure at 31 March 2019 and the PCGs in place, are satisfied that this could not be a material liability at 31 March 2019. The Council did not update the financial statements to reflect the calculated financial liability or the related financial instrument disclosures.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

The Council has a detailed Medium Term Financial Plan that runs to 2022/23 which identifies balanced revenue budgets to the end of 2020/21, after delivery of previously agreed savings targets and some use of earmarked revenue reserves. Our review of the Medium Term Financial Plan and the assumptions that underpin it did not identify any significant issues.

As a Local Government organisation, the Council has a number of options available to it to raise finance should it require, including the decision on the level of precept and loan financing. Should it be required, the Council could also raise fees or cease discretionary services and it currently holds a healthy reserves balance. As such, the Council has a number of sources of finance available to it.

The Council’s Corporate Strategy runs to 2023 which sets out the key priorities of the Council. The CIPFA Code confirms that entities should prepare their financial statements on a Going Concern basis unless the services provided are to cease. There is no indication from Government that the services provided by the Council will cease.

From a group perspective, no issues were identified in respect of the Going Concern by the subsidiary company auditors. Bristol City Council has provided a letter of support to Bristol Energy Limited which includes a confirmation of the funding envelope that has previously been agreed by the Council as part of the agreement of the company’s business plan.

In March 2020 the global Covid-19 pandemic arose which has impacted on all industries and sectors, including Local Government. At a high level the Council has modelled a number of potential scenarios on the Council’s finances based on varying assumptions of longevity and severity. This modelling assesses the potential impact on the income, expenditure and cashflows of the Council and the resultant impact on it’s financial position and reserves and continues to update these forecasts. The Council has also assessed the impact of Covid-19 on the group.

Auditor commentary

Whilst management did not complete a written assessment of the Council’s ability to continue as a going concern, we are satisfied that the going concern assumption is appropriate for the Council’s financial statements and is in line with accounting standards and the CIPFA Code.

Following the outbreak of Covid-19, we discussed the impact of the pandemic with management who produced a detailed accounting paper setting out the approach that the Council had adopted to produce high level forecasts of the potential impact on the Council’s finances and the going concern assumption.

We reviewed the Council’s assessment of the impact of Covid-19 and the high level scenario forecasting and were satisfied that this included an appropriate assessment of the key income and expenditure streams. We also corroborated any forecast additional funding mitigations, such as that announced by the UK Government, to published allocations and confirmed that the impact of other UK Government policy decisions was also factored into the forecasts. We were satisfied that the Council had not included any mitigations not yet formally confirmed by UK Government.

We reviewed the Council’s assessment of the impact on it’s group and were satisfied that the position was not materially different to that of the Council.

We were satisfied that the Council and group were a going concern and that Covid-19 did not create any material uncertainties.

We requested that management add post balance sheet disclosures within the financial statements in respect of Covid-19 and assessed these against the requirements of the relevant accounting standard.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any significant matters in respect of fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit Committee papers as a separate item.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the financial institutions that the Council have banking facilities with, along with those that they have lent money from or invested money with. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	Our audit identified a number of disclosure amendments that were made to the financial statements. More information can be found on these in Appendix B.
Audit evidence and explanations/significant difficulties	We experienced some delays in the receipt of working papers and explanations to audit queries. We had discussed a turnaround time for queries of two days prior to the audit, however a number of requests took both ourselves and finance officers significantly longer to resolve and a number of requests still remain outstanding. We appreciate that as new auditors there is a learning process for both parties in respect of working together, and following the completion of the audit we will discuss this with officers to understand how the process can be improved in future years.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; and • if we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed.
Certification of the closure of the audit	We are unable to certify the closure of the 2018/19 audit of Bristol City Council in the audit opinion until our work on WGA is completed.

Value for Money

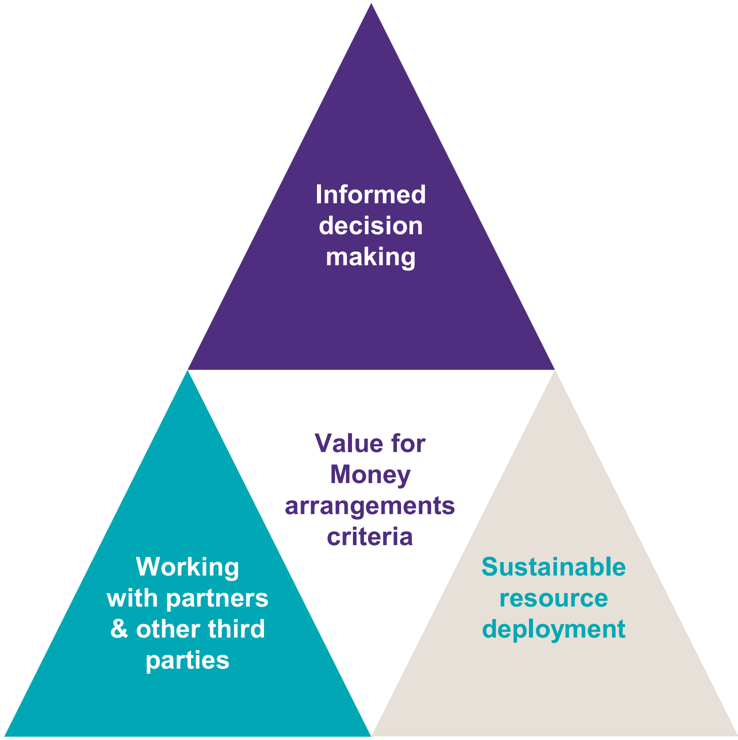
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment and identified a significant risk in respect of financial planning and future financial sustainability using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated January 2019.

We have continued our review of relevant documents up to the date of giving our report, and identified a further significant risk in respect of governance arrangements at the Council following the previous auditor's Statutory Recommendations which were issued in March 2019. We communicated this risk to you in our Audit Committee Update dated May 2019.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

Finance:

- the Council delivered a £3.2m revenue budget underspend in 2018/19, although this was assisted by a number of one-off measures;
- there is evidence that management actively monitored and managed the budget in year and the revenue outturn identifies that this was effective;
- there is a robust approach adopted in respect of the monitoring of savings delivery which is monitored on a monthly basis;
- the Medium Term Financial Plan was subject to stakeholder consultation and scrutiny, and identifies balanced revenue budgets the 2021/22 without the requirement for any new savings plans;
- the assumptions used in the production of the Medium Term Financial Plan appear to be appropriate;

Governance:

- the Council has responded to the Statutory Recommendations issued in the prior year, updating Terms of Reference and policies as appropriate. To date the new policies have not been required to be used in respect of a senior officer;
- the Council closed the remaining outstanding actions from the 'Review of 2016/17 Forecast Budget Deficit' report issued by Steve Bundred (the 'Bundred Report') in year and has continued to close down actions as completed on the Annual Governance Statement tracker in year; and
- the governance of Council companies has continued to evolve throughout the year.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 25.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	<u>2018/19 outturn</u> The 2018/19 revenue budget outturn reported to Cabinet in June 2019, after taking into account reserves adjustments, was an underspend of £3.2m (0.9%) against the revised budget. The original budget approved by Council in February 2018 was revised for a number of reasons throughout the year, and a full reconciliation was reported to members as part of the budget outturn. The main adjustments related to unbudgeted grant funding and a Collection Fund adjustment, which in totality resulted in an additional £16.2m of funding for the 2018/19 general fund budget. £0.9m of grants received late in March 2019 were not spent and were moved to earmarked reserves with plans to spend the monies in 2019/20. Whilst additional funding allowed a revenue surplus to be reported, the one-off nature of some of these funds mean that future year budgets will need to be balanced without them. Each Directorate delivered general fund revenue budget underspends against their revised budgets, with a £1.1m overspend on Adult Social Care (ASC) offset by underspends elsewhere in the People Directorate to deliver an overall underspend of £0.7m. The ASC budget was revised in period 7 as a result of a supplementary estimate of costs, however further pressures materialised as a result of reduced savings, additional costs in respect of Disabled Facilities Grants and adverse changes in the apportionment of costs between the Council and Bristol, North Somerset & South Gloucestershire Clinical Commissioning Group for those service users eligible for s117 funding income. Corporate expenditure was £1m higher than budgeted, largely due to year end provisions especially in respect of NNDR appeals. Of the Council's ring-fenced budgets, the Housing Revenue Account (HRA) delivered an underspend of £8.3m (8.1%), with the main variances relating to delays in reports and maintenance (£3.2m), an underspend of £1m due to slippage in the capital programme and receipt of rental income £1m higher than budgeted due to the pace of relets of properties. The Dedicated Schools Grant (DSG) budget was underspent by £1.9m when £1m of brought forward spend is included, against in-year income of £347.9m. The Council continues to face budget pressures in the High Needs Block, with a carried forward cumulative deficit of £1.1m at the end of the year. Spend on Public Health was £34m compared to grant of £32.5m. The shortfall was met by the budgeted draw-down of £1.5m from the Public Health ring-fenced reserve. The Council had a savings target of £46.2m for 2018/19, being £35.5m in-year savings and £8.1m of savings rolled forward from previous years. Of the full target, £28.9m was delivered as planned and signed off as closed, with £28.5m of recurrent savings and £0.4m of originally-planned one-off savings. £1.9m of additional recurrent savings were delivered by services, although not as originally planned. £5.4m of savings will roll forward into 2019/20, as although benefits were delivered in 2018/19 these were either one-off in nature (£2.2m) or mitigated from other sources such as wider Directorate budgets or contributions from other sources (£3.2m). £6.4m of savings have been written off as undeliverable, which will increase future savings requirements. Of these, £4.7m relate to the People Directorate, £1.2m Growth & Regeneration and £0.5m Resources. The impact of this write off was included in the 2019/20 revenue budget and so does not have an additional impact of the 2019/20 revenue position which we consider later in this section. The outturn capital spend was £129.5m against a revised budget of £160.3m, reflecting 81% of planned expenditure, with £32.6m of HRA capital spend included within this position. The original capital budget approved by Council was for expenditure of £244.3m, with the adjustment largely relating to in accounting treatment for expenditure incurred for Temple Island, external delays and variances to schemes with spend profiles that span a number of financial years. Approval was granted to re-profile £26.6m of general fund and £2.8m HRA capital expenditure into future years due to delays in delivery of the schemes. £1.4m was considered an underspend on various projects and was removed from the capital programme.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	Arrangements for monitoring and managing the delivery of the budget Monthly revenue budget monitoring reports are reviewed by the Mayor before being reported to Cabinet. Reporting includes the projected year end outturn and provides detailed financial performance and information on pressures for each of the Directorates, as well as separately reporting performance on the Council's ring-fenced budgets, the capital programme, savings delivery and reserves. Reporting is of sufficient detail to allow members to understand the financial position of the Council and understand changes and mitigations from the previous month, as well as future plans to ensure that the Council meets it's outturn. The Council operates Directorate cash limited budgets and Executive Directors are responsible for ensuring that appropriate action is taken to contain both revenue and capital spending within the directorate's overall budget limit. Budget holders forecasting a risk of overspend should set out in-service options for mitigation. Where these are considered undeliverable or pressures cannot be contained across the directorate a request can be made for the Executive to consider granting a supplementary estimate redirecting funds from an alternative source. Monthly budget reports taken to Cabinet include any such proposed changes to budgets. An example of this is the Period 6 monitoring report taken to Cabinet in December 2018, which south approval to adjust budgets based on in-year performance and following the receipt of un-budgeted one-off monies. This resulted in an additional £12.3m estimate of expenditure for Adults, Children and Education, mainly arising from the Adult Social Care pressures that the Council was facing. This was funded in part through one-off measures such as the un-budgeted S31 and Adult Social Care grants, as well as through permanent adjustments to base budgets and the use of central contingencies. Reporting each month provides detail of the prosed changes to budgets and ensures that members can understand any adjustments to the previously agreed budget. There is a robust approach adopted in respect of the monitoring of savings delivery which is monitored on a monthly basis. Each savings plan is tracked every month, and if it is identified that the plan is not delivering to target the relevant service director is required to produce commentary on progress and overall deliverability, plus identify mitigations if required. Monthly reports sent to savings delivery executive which includes the Section 151 Officer, the Monitoring Officer and the Deputy Mayor – Finance, Governance, Property and Culture. Any service directors with plans not delivering to forecast have to attend the monthly meeting to discuss the situation and proposals to mitigate the risk of non-delivery. Arrangements for developing the 2019/20 budget and the updated medium term financial plan The budget setting process allows for member scrutiny through the Resources Scrutiny Commission (RSC), which met twice in January 2019, with the findings from this also reported to and considered at Overview and Scrutiny Management Board (OSM). Prior to RSC, the Scrutiny 'Budget Task and Finish Group' met six times with finance and other officers between the end of September 2018 and the beginning of December 2018 to discuss the budget setting process. This process allowed members to scrutinise the budget proposals and deep-dive into key risk areas, and whilst improvements from prior years were noted, the Task & Finish Group did note reports and information were in some cases received late which limited the effectiveness of scrutiny, although prior to the start of the process members knew that they would be received close to meeting dates. Members and officers were positively engaged in the process and this is an example of how the Council continues to evolve it's budget setting process to ensure appropriate scrutiny and member involvement, and changes to the timing and process for 2019/20 have been adopted to ensure that this continues to evolve into future years. The Council also undertakes public consultation on its revenue and capital budgets, and the results of the public consultation including on the level of Council Tax increase were included as part of the 2019/20 budget appendices. Officers pro-actively sought feedback on proposals by going out to meet the public, to seek out a view from a wider cohort than is usually gained, and this allowed increased response rates and also ensured that the responses were from a wider and more representative section of the City's population.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	The approved General Fund revenue budget for 2019/20 totals £376.2m, a net increase of £12.8m from 2018/19. This increase consists of £30.2m of investment in services offset by £17.4m previously approved savings, with no requirement for any new savings to achieve a balanced budget for 2019/20. Over the medium term the Council models an assumed funding position which delivers a 3 year balanced revenue position to 2021/22 with no requirement for any new savings to achieve this position. The below table sets out the previously agreed savings requirement and the General Fund revenue budget position identified in the latest projections.

	2019/20	2020/21	2021/22	2022/23	2023/24	Cumulative total
Savings previously agreed	-£17.4m	-£12.6m	-£7.1m	-£4.8m	£0	**-£41.9m**
Revenue deficit	Balanced budget	Balanced budget	Balanced budget	£5.4m	£7.8m	**£13.2m**

Savings remain as previously reported and agreed in the 2018-19 budget setting process, although in 2019-20 £2.8m of savings have been removed from the above target which has been enabled by the increased Council Tax precept above original planning assumptions (i.e. 3% increase rather than 1.99% originally assumed).

Funding assumptions in the projections were based on the provisional Local Government Finance Settlement data issued in December 2018. This represented the final year of the latest funding settlement, and like the rest of the Local Government sector this meant that there was increased uncertainty over the funding assumptions in later years. The previously anticipated Comprehensive Spending Review has now been postponed due to changes in Government, Brexit and other factors, and as such a one-year settlement for 2020-21 is now anticipated with the a full review of funding to take place to be implemented from 2021-22. This serves to prolong the uncertainty over future funding and as such makes any future decisions about investment or savings more difficult for all in the sector.

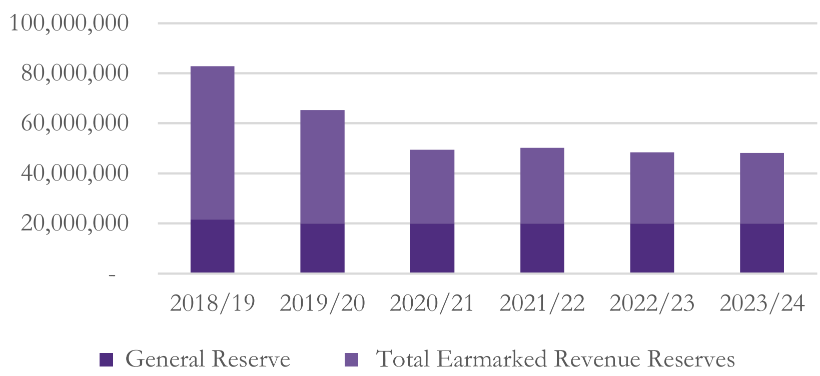
Despite this uncertainty, the funding and expenditure assumptions applied in the budget and future financial forecasts appear to be reasonable. Detailed information is included for each Directorate, with unavoidable cost pressures or service developments included in future financial plans as expected. Income assumptions are modelled on precept increases of 1.99% annually alongside council tax base growth of 1.5% per annum which is deemed to be a reasonable estimation. The Council currently benefit from the 100% business rates retention pilot and with the uncertainty over the future of funding and the pilot, the Council has prudently assumed that from 2020/21 that the Council will revert to receiving 50% of income and lose the retention of any growth. This level of income has then been baselined for the remainder of the MTFP.

Expenditure increases related to pay costs were modelled based upon the latest nationally agreed changes at the time of production, although the Council recognises that with recent increases in other areas of public sector pay such as policing, future pay increases are likely to be a cost pressure on the MTFP and as such additional modelling will be required for the 2019/20 budget. Other inflation is allowed for using the Office for Budget Responsibility forecasts and other expenditure assumptions appear to be reasonable and are based upon relevant data, with specific contract inflation pressures modelled on an individual contract basis based upon the relevant clauses. At period 7 2019/20 the Council was projecting a forecast overspend of £4.3m, being 1.1% of budget, largely due to pressures in the People directorate relating to adult social care.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	Ring-fenced budgets The Schools Forum considered the proposals on the use and distribution of the available DSG funding, as advised by the Education and Skills Funding Agency, at its meeting on 16th January 2019. Total funding of £354m was awarded, split between the four blocks. The High Needs block remains a challenge in respect of funding, with an assumed cumulative shortfall of £3.3m by March 2020. In order to fund the High Needs Budget in the short-term, the Council plans to use High Needs DSG from 2020/21 in advance and whilst this is permissible under the DSG regulations, it does not address the underlying shortfall in the High Needs DSG. Whilst this is an issue being experienced by many Councils around the country, officers should continue to implement strategies to address the deficit. The Public Health grant continues to be reduced year on year by the Department for Health and Social Care, with a projected £0.9m reduction between 2018-19 to 2019-20 based on the level of reduction between 2017/18 and 2018/19, with the funding to be used in line with the grant conditions. The separate HRA budget identifies a balanced position for 2018/19 and through to 2023/24 on the planning assumptions, which are considered to be appropriate. The revenue projections include the required 1% reduction in rents, and the capital plans are also balanced over the 5 year period from 2019/20. Reserves The Council held £23.5m in it's general fund at 31 March 2019, £3.5m higher than it anticipated in the 2019/20 budget report. The Council will continue to hold a General Fund balance of a minimum of 5% of the Council's net revenue budget which is deemed to be a prudent approach in the Council's management of financial risk. The Council held an additional £81.2m of earmarked revenue reserves at 31 March 2019, £20.2m higher than anticipated. A further £12.5 of schools balances are also held. Reserves at year end were higher than expected after forecast drawdowns were not required to support the final revenue budget outturn. The Council's projected reserves balances over the MTFP period are set out below, which highlights the projected decline of earmarked revenue reserves, with the General Fund projected to remain relatively constant throughout the period.



Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	Capital The capital programme to 2023/24 is fully funded, with total planned expenditure of £858m, £284.1m of which is related to the HRA. The capital programme is underpinned by the Capital Strategy that was approved in December 2018 which is aligned to the financing principles set out in the MTFP, ensuring that the development of all capital schemes is based on a clear evidence base and whole-life costing with where appropriate, anticipated pay-back of the investment. The Capital Strategy will be reviewed annually to ensure that it remains affordable, sustainable and prudent as well as aligned to the Council's corporate priorities. A significant proportion of the capital programme relates to large infrastructure investments that will support long term regeneration across the City, such as the building of new housing and the development of the Temple Quarter area, with 9% related to invest to save and invest to maintain propositions respectively. Financing of the Council programmes includes the planned use of £206.2m prudential borrowing, £188.7m of grants and £106.7m of capital receipts. The programme as approved will increase capital financing charges by an estimated £20m by 2023/24. The Council's agreed MTFP incorporates the principle that there will be no further increase to the indicative prudential borrowing commitment in the capital programme unless substituting a current scheme or where the Council can make an evidenced return on investment, and the assumed capital charges have been reflected within the revenue budget projections. In addition to it's own capital aims, the Council continues to work closely with the West of England Combined Authority (WECA) in order to drive improvements locally for residents as well as across the region. WECA has been successful in securing additional Government funding in a number of areas, including an additional £103m for transport and £5m to trial 5G networks. The Council continues to work closely with WECA to help shape the city and wider region as well as to secure additional funding for capital programmes. Improved local infrastructure will help support growth in the city and the region. As noted previously, the 2018-19 capital programme delivered an underspend when compared to both original and revised budgets. Additional arrangements for the development and management of capital projects will be introduced in 2019/20 to ensure greater assurance of delivery, in the form of a capital and investment board which will scrutinise the progress of capital schemes as well as reviewing the Council's other investments such as Bristol Energy and the City Fund. At period 7 of 2019/20 the Council was forecasting expenditure of £168.6m against a revised budget of £170.9m based on manager forecasts, though notes that based on previous actuals this may be optimistic and that an outturn of £130m-£150m may be more realistic. **Taking the above information into account, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for informed decision making and sustainable resource deployment.**

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk Findings

Governance arrangements at the Council

Statutory Recommendations

On 19 March 2019 the Council's previous external auditor, BDO, presented the findings of their senior executive remuneration review to Full Council along with Statutory Recommendations under Schedule 7 of the Local Audit and Accountability Act 2014. Full Council accepted these Recommendations at this meeting. The previous external auditor also issued an 'except-for' qualified value for money conclusion on 23 May 2019 due to evidence of significant weaknesses in arrangements to ensure informed decision-making by the Council which arose following this review.

The agreed action plan to address the 3 Statutory Recommendations and 1 other recommendation included a target completion date for all of May 2019. The recommendations and subsequent progress are included in the table below.

Recommendation	Progress
The Council should ensure that the appropriate Committee is given sufficient detail on the costs and alternative options when presenting information on severance arrangements for senior staff.	There have been no senior officer severance arrangements that have occurred since the Statutory Recommendations were issued. As such, whilst the Council accepts this recommendation and the Pay Policy Statement has been updated to include this as a requirement, we have not yet been able to evidence that this has happened in practice.
A policy and associated guidance should be drafted to cover severance packages for senior staff.	An update to the Council's Pay Policy Statement was considered by the HR Committee 9 May 2019 which was agreed and subsequently approved by Full Council 21 May 2019. Paragraph 10d of the Pay Policy Statement covers this requirement.
The HR Committee Terms of Reference should be revised to explicitly cover the point that any severance payment to the Head of Paid Service should be recommended by the HR Committee for approval by Full Council.	The HR Committee's Terms of Reference have been updated as per the recommendation to explicitly cover this point.
If discretionary payments are made as part of severance packages, then they should be fully explained in the notes to the financial statements.	Management have confirmed that any future discretionary payments made as part of severance packages will be fully disclosed in the financial statements.

Annual Governance Statement tracker

The Council's Annual Governance Statement (AGS) from 2017/18 identified a number of weaknesses that needed to be addressed to ensure continuous improvement in the governance framework and financial and budget management within the Council. The areas identified for improvements were incorporated into a separate AGS Action Plan for 2017/18, monitored through the 2018/19 financial year with progress regularly reported to the Audit Committee. Actions from the 2016/17 AGS were also monitored by the Audit Committee throughout the year, and updates were taken to the September 2018 and January 2019 Audit Committee meetings which showed the progress against the implementation of actions designed to address the issues noted. These covered areas identified in the AGS as well as the recommendations that arose from the 'Bundred Report' that was published on 9 February 2017 that was commissioned by the Mayor to report on the financial deficit in 2016/17.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Governance arrangements at the Council	In respect of the Bundred Report, of the 85 recommendations made, at the beginning of financial year (March 2018), 68% were complete with a further 32% in progress. By January 2019, 91% of the recommendations were shown as complete, and at the July 2019 Audit Committee it was reported that 100% of the recommendations had been closed as they were now complete. This provides assurance that the learning and actions from the 2016/17 financial deficit have now been fully embedded within the Council. For recommendations raised through the 2016/17 AGS, by January 2019 73% of the actions had been fully completed, with the remaining 6 actions shown as in progress and all had been closed as at July 2019. At July 2019, 8 of the 11 actions from the 2017/18 AGS had been completed with the remaining 3 shown in progress. All actions and changes from the previous report are clearly identified, and commentary is provided against each action which allows the reader to understand the progress made and current position against the recommendation. This ensures that the Council can evidence to members and other stakeholders that the actions arising from the AGS continued to be monitored and implemented with a view to continually improving governance processes. <u>Governance of the Council's companies</u> 2017/18 was first full financial year of the shareholder oversight group, and the group has continued to review the governance of the Council's fully-owned subsidiaries along with the overarching governance arrangements at the Council. The Council's Audit Committee received a report from the Shareholder Liaison Director in July 2018 which set out the relationship between the Council's Audit Committee and the audit functions in place at the companies. This paper confirmed that the Council's Audit Committee should consider: 1. The Annual Accounts of the companies (within the context of the overall Council audit); 2. The Council Annual Governance Statement (incorporating the governance of the companies as the group); 3. A consolidated version of the Company's Annual Audit Programme; and 4. A six month update on progress with the Annual Audit Programme. In addition to the above, the Shareholder Group, chaired by Councillor Cheney, would consider: 5. Board Effectiveness Reviews; 6. Audit Committee Effectiveness Reviews; 7. Companies Annual Financial Audit and process reviews; 8. Annual Business Planning cycle; and 9. Performance Reports. The Council's Audit Committee received an update on the progress of audit arrangements at the companies in January 2019, and at the July 2019 Audit Committee both Bristol Energy and Bristol Waste provided their first Annual Review and Letters of Assurance from the Chairs of the respective Audit Committees. These provided the Council's Audit Committee with assurance over the governance arrangements and reviews undertaken at the companies prior to the Council's Audit Committee approving the 2018/19 Council AGS. This provides evidence that governance arrangements over the companies continue to evolve and embed, and it is clear that members and the Council's audit committee are provided with sufficient opportunity to input into the governance arrangements.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Governance arrangements at the Council	Internal Audit In line with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Council's Internal Audit function were externally assessed in February 2018 which found that the service "Generally Conforms" with the requirements of the Standards. The review, reported to Audit Committee in March 2018, identified 28 recommendations which if implemented would further increase the level of conformity with the PSIAS and enhance the service. Internal Audit play a vital role as the 'third line of defence' in the Council's governance structure, and reports were regularly taken to Audit Committee throughout the year detailing the progress against the recommendations. At March 2019, 18 actions were complete and 9 were in progress. The one action not yet started can only be completed once all other actions have been completed. Again, this provides assurance that recommendations for improvement to the Council's overall governance structure are actioned in a timely manner and are actively monitored. **Taking the above information into account, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for informed decision making.**

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. The firm, its partners, senior managers and managers have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We have received confirmation that PricewaterhouseCoopers LLP is independent. PricewaterhouseCoopers undertake the audits of Bristol Holdings Limited, Bristol Waste Company Limited and Bristol Energy Limited.

We have received confirmation that our auditor's expert Wilkes Head & Eve LLP are independent.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees	Threats identified	Safeguards
Audit related			
Agreed upon procedures on the Council's Housing Capital Receipts return (2015-16 to 2017-18)	£12,000	Self-Interest (because these are recurring or potentially recurring fees) Self Review Management	**Self Interest** The level of these recurring fees, taken on their own or cumulatively, are not considered a significant threat to independence as the total fees for this work are £46,000 in comparison to the total fee for the audit of £156,839, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, they are fixed fees and there are no contingent elements to them. **Self Review** For engagements already completed, we have not identified, nor did we expect, any material changes to accounting entries as a result of our work. For engagements still being completed, we are not expecting material changes to accounting entries as a result from this work. **Management** Any amendments required to forms are made by officers who have the authority and understanding of the relevant area, rather than ourselves. These factors all mitigate the perceived threats to an acceptable level.
Agreed upon procedures on the Council's Housing Capital Receipts return 2018-19	£4,000		
Agreed upon procedures on the Council's Housing Benefit Subsidy Claim 2018-19	£22,000		
Agreed upon procedures on the Council's Teacher's Pension Return 2018-19	£8,000		
Agreed upon procedures on the Council's Strategic School Improvement Fund grant return	£5,000		

Independence and ethics

	Fees	Threats identified	Safeguards
Non-audit related			
'Brexit Room' – Facilitated workshop in respect of Brexit planning	£10,000	Self-Interest (SI) Management (M) Advocacy (A)	(SI) Applicable but considered low threat because the fees for the non-audit services are not contingent and are a low fee in respect of both audit service and the firm. (M) We will not providing recommendations but instead facilitating conversations and providing feedback on these. The discussions during the workshop are based on 7 areas proposed by management rather than ourselves. (A) Applicable but considered low threat as the nature of the non-audit work will be an objective analysis of Brexit impacts for place as well as the Council. We will not be making any recommendations, the discussions are to be client led with us acting as facilitators and will be framed around the areas determined by management.
Bristol Energy Limited – Smart Meter Installation Code of Practice (SMICoP) compliance review	£3,128	Self-Interest (because this is potentially a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,128 in comparison to the total fee for the audit of £156,839 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. In the table below we have set out the previous services we have provided to the Council.

Service	End date of service	£	Would the service have been prohibited if we had been auditor?	Has the outcome of the service been audited or reviewed by another firm?	Commentary
Housing company advice	December 2017	83,905	Yes	No	The job was completed and the Council were notified that we could not provide any further advice once we were notified of our audit appointment by PSAA.

We do not believe that the previous services detailed above will impact our independence as auditors.

Action plan

We have identified 9 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Red	There are two main methods for posting journals to the Council's ledger, system input and spreadsheet. Our testing of journal entries identified that spreadsheet journals do not require a second user to authorise the journal prior to it being posted to the ledger. There is a risk that fraudulent or erroneous journals could be posted to the Council's ledger.	Management should consider the current journals authorisation policy and consider implementing compensation controls in respect of spreadsheet journals. **Management response** Agreed - A journal policy has been developed and implemented prior to closedown of the 2019/20 accounts to ensure a robust authorisation process is in place. The policy outlines authorisation levels required for different types and values of journal transactions.
● Medium	The valuation of the Council's unquoted equity investment in the port and the valuation of Bristol Energy Limited at 31 March 2019 are both significant estimates within the financial statements. The Council valued the port investment by developing it's own point estimate using different potential valuation techniques including on a net assets basis and via a discounted cash flow calculation. In 2018/19 we engaged our own valuation experts to review these values. The Energy company is valued at fair value based on it's meter points and an estimate price per customer should the company require to be sold. As part of our expert's findings, they recommended that management engage their own valuation experts in future years. In both cases, our expert noted that the valuations adopted by the Council were at the bottom of their expected range. There is a risk that the valuations could be materially misstated in the financial statements.	Management should consider engaging their own valuation experts to value their complex investments. **Management response** Commercial property valuations are a mixture of art and science and estimates are generally based on, market data, local knowledge, and other financial information about the investment that you have available to you. The Council has taken a proportionate approach across all investments; this has included utilisation of external consultants that are working with the council on related matters and external valuation experts where this is deemed appropriate to the investment. In relation to the Port we will seek advice from our property advisors on the approach to be adopted for future valuations, given the limited data that the Council will have directly available and formalise the approach to be utilised on an annual basis as part of the 2019/20 audit (subject to any COVID-19 restrictions that may be in place). In relation to Bristol Energy, the advice of energy valuation experts have previously been sought and this agreed methodology is being followed in our valuation and confirmed with energy consultants working with the Council as the most appropriate valuation methodology. We recognise that market conditions are subject to change and will seek independent advice for 2019/20.

Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system

Action plan

Assessment	Issue and risk	Recommendations
Medium	Our review of the reconciliation of the fixed asset register to the financial ledger identified that the opening gross cost and gross accumulated depreciation per the Council's asset register were £9.7m higher than in the financial statements. As part of our review we also identified assets that had been disposed in previous years that remained on the asset register with a net book value of nil, and one asset classified as land and buildings that would have been more appropriately classified as plant and machinery. We also identified that the gross book value of Waste Company vehicle assets were different between the Council's asset register and the disclosures in the Waste Company's single entity accounts (£9.2m in Council and £3.1m in Waste Company). The asset register is the prime source of information and there is therefore a risk that the financial statements are misstated if they do not reconcile or contain correct data.	The Council should review the fixed asset register and financial ledger and ensure that these reconcile and should ensure that all asset related transactions are recorded in the fixed asset register appropriately. **Management response** Agreed – an error was noted in compiling the note for the financial statement. Reconciliation processes and assurance checks will be reviewed to ensure they are robust and separate quality assurance checks undertaken on working papers going forward.
Medium	As part of our review of Housing Revenue Account (HRA) depreciation we were unable to review supporting information for the cost of one of our sampled components. The selected component had not been replaced in 9 years and therefore no records were still held for the item. We experienced difficulty in obtaining evidence to support the cost data used for other components in our sample. There is a risk that the component costs used in the calculation of the depreciation estimate are not representative of the cost and that the depreciation charge is subsequently misstated, though we are comfortable that the depreciation charged in 2018-19 is reasonable.	The Council should ensure that the cost of components used in the calculation of the HRA depreciation charge can be evidenced to supporting documentation and can be seen to be up to date and representative of the cost of replacement. **Management response** Agreed - Component values have been revised for 2019/20 financial year. Going forward robust evidence will be obtained to ensure the validity of these calculations.
Medium	The Council's bank reconciliation is produced using the bank reconciliation module within the Council's finance system. Due to limitations this reconciles from 1 April 2013, the date of system implementation, rather than taking the closing bank balance per the ledger and reconciling this to the closing bank balance per the bank statement. This results in opening balance reconciling items being included in the year end bank reconciliation. There is a risk using the current methodology that closing reconciling items are not clearly identified, however we have reviewed reconciling items for 2018/19 and did not identify any issues as part of our audit.	The Council should consider the current bank reconciliation methodology and should produce year end bank reconciliations based on the closing ledger balance and the closing bank balance. **Management response** Agreed - A revised methodology for bank reconciliations has been implemented in line with recommendations.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● Medium	The CIPFA Code requires that all surplus and investment properties are valued at Fair Value annually and that all other land and buildings held at valuation must be valued at a minimum every five years. Our audit identified some assets that had not been valued in accordance with these requirements. There is a risk that the Council does not meet the accounting requirements of the CIPFA Code and that property, plant and equipment could be materially misstated.	The Council should ensure that land and buildings are valued in accordance with the requirements of the CIPFA Code, with surplus assets and investment properties valued annually and all other land and buildings held at valuation valued at least every five years or sooner if their carrying valued could be materially different to current value. **Management response** Relevant policy and procedures will be reviewed to ensure all assets are valued in accordance with the code and that no land and building assets will fall outside the 5 yearly cycle. We will implement a robust documented process which includes quality assurance prior to inclusion in accounts this will include an earlier review and timely acceleration to senior management in the relevant service area to ensure the action has occurred.
● Medium	The Council identified an error in a prior year working paper which resulted in a prior Period Adjustment being posted to the financial statements in 2018/19. We also encountered working papers in year that were not self-explanatory or clearly laid out that required us to go back to officers for additional explanations and further information. Quality checks undertaken by the Council prior to providing working papers to audit could have resulted in errors being identified prior to submission of the draft financial statements and also fewer follow up questions to officers.	Management should introduce a quality check process for working papers to ensure that they are accurate and clearly reconcile back to the financial statement line items and disclosures that they support. **Management response** Agreed - Given the volume and complex of Council business and shortened timescale for the production of the accounts an embedded quality assurance process is key and has now been incorporated in our revised closedown procedures.
● Medium	The Council's reserves transfer policy requires movements in useable reserves to be authorised by the Section 151 Officer. Our testing of reserves movements identified that the majority of our sampled movements had not be subject to this documented authorisation. There is a risk that by not following it's own reserves transfer policy, movements between reserves could be made that are not appropriate.	Management should ensure that the reserves transfer policy is followed and that movements in useable reserves have the documented approval of the Section 151 Officer. **Management response** Agreed - All movements in reserves are closely monitored by the s151 Officer and approval sought prior to transfers. We recognise the need for these approvals to be formally documented and stored centrally. This will also be noted in the journal policy.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
● Medium	On reconciling the heritage asset insurance valuations to the financial statements we identified that the full value of a painting loaned out was not insured. £994k of the valuation of the painting was not covered by the Council's insurance policy.	We recommend that management ensure all heritage asset values are included in the next insurance valuation undertaken. **Management response** Agreed - Directors have been reminded of the requirement to notify finance of any alternations or change of use to assets that are proposed that could affect the insurance which are required for disclosure to insurer. A new risk and insurance team structure is in place and processes are being reviewed, along with wider training to be provided to ensure changes that are proposed or occurred are updated promptly.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
As noted earlier in our report, the financial statements were updated to reflect the updated pension liability following the McCloud / Sargeant ruling. The pension liability in the financial statements increased by £32.7m following a recalculation by the Council's actuary. This calculation also took into account more up to date assumptions, including the actual return on scheme assets. This increase was reversed through the Movement in Reserves Statement to the Pension Reserve. The increase was recorded in the Comprehensive Income and Expenditure Statement as a £13.9m past service cost charge and an increase on the return on assets of £18.8m. The impact and adjusted totals in the main statements was also updated in the relevant notes to the financial statements. This impact was also reflected in the Group financial statements.	Dr Corporate Funding & Expenditure £13.9m Dr Remeasurement of the net defined benefit liability \ asset £18.8m	Cr Other long-term liabilities £32.7m Cr Unusable Reserve £32.7m
The 2018/19 financial year was the first year of the implementation of IFRS 9. This new accounting standard removed the option to hold unquoted equity investments at cost, which the Council had previously used for the unquoted equity investment in the port at cost. The CIPFA Code requires that the adjustment is made to opening balances, in this case increasing the investment value in the Balance Sheet with the opposite entry taken to the Capital Adjustment Account. Whilst the Council had made these opening adjustments, the £22.5m gain following the valuation of the investment at Fair Value had been shown in the Comprehensive Income and Expenditure Statement and reversed out of the General Fund to the Capital Adjustment Account in year. As the CIPFA Code prescribes that the adjustment should be made to opening balances, we would not expect any in-year transaction in respect of this restatement in the Comprehensive Income and Expenditure Statement. As such, the gain was removed from the 'Financing and investment income and Expenditure' line.	Dr Financing and investment income and Expenditure £22.5m	Nil impact
The group financial statements were adjusted to reflect the signed audited accounts of the subsidiary companies. The non-trivial adjustments arising from these were as follows: Group CIES: Growth & Regeneration gross expenditure – Reduction of £1.3m Group Balance Sheet: Short Term Debtors – Reduction of £2.1m Group Balance Sheet: Cash and Cash Equivalents – Increase of £2.6m	Dr Growth & Regeneration £1.3m	Dr Cash and Cash Equivalents £2.6m Cr Short Term Debtors £2.1m

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
We experienced significant difficulties in obtaining a population of grants received in advance that reconciled to the Balance Sheet. As part of the process of obtaining this listing, management identified that £7.7m of Section 106 grants were coded to a receipts in advance ledger code and were therefore shown as Short-term Creditors in the Balance Sheet in 2017/18, with the balance carried forward into 2018/19. The Council adjusted the Balance Sheet at 31 March 2019 to show these balances as current and non-current Capital Grants Received in Advance. No adjustment was made to the prior year as this was not material. This adjustment was also made to the Group financial statements.	None	Dr Short-term Creditors £7.7m Cr Capital Grants Received in Advance (current) £0.6m Cr Capital Grants Received in Advance (non-current) £7.1m

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure issues identified during the audit.

Detail	Adjusted?
The Council designated the investment in Bristol Holdings Limited (shown as long-term investments in the Balance Sheet) as Fair Value through Other Comprehensive Income under IFRS 9 in it's financial instruments disclosures. We challenged this designation as the majority of the investment is made in preference shares which are classified as debt by the issuer and as such the FVOCI designation is not available. Management concluded that the correct classification was Fair Value through Profit and Loss and we confirmed that this classification was appropriate.	✓
The Council has invested £10m in a Homelessness Property Fund which is a pooled investment. The introduction of IFRS 9 has meant that financial instrument classifications have changed, and the Council had designated this Fund to be accounted for as Fair Value through Other Comprehensive Income (FVOCI). Upon review of the terms of the investment, we did not consider that the Fund met the criteria to be designated as FVOCI as the instrument does not meet the definition of equity from the issuer's perspective. As such, the Fund has been classified as Fair Value through Profit and Loss in the financial instruments note. Any gains or losses accounted for through the Comprehensive Income and Expenditure Statement (CIES) are reversed from the General Fund to the Capital Adjustment Account through the Movement in Reserves Statement as the investment was funded from capital. The reclassification resulted in a trivial classification adjustment in the CIES.	✓
The disclosure of capital commitments within Note 19 of the financial statements was updated to ensure that it reflected the contractual commitments payable at year end. The total of £30.2m in the draft financial statements was increased to £31.2m.	✓
In reviewing the movement in reserves statement, we identified that there was a difference between the "Transfer of sale proceeds credited as part of the (loss) on disposal to the Comprehensive Income and Expenditure" line and the "Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets" line in Note 34 which supports the entry in the cash flow statement of £3.3m. We would expect the numbers to be consistent throughout the financial statements. The difference is not material to the financial statements.	X
Included within long-term liabilities in the Balance Sheet is a deferred liability of £8.5m in respect of monies received for phase two of the Hengrove PFI development. Our review of the original agreement identified that if these monies were not utilised then they were repayable by 31 March 2020. As such, this balance should be disclosed as a short term liability in the Balance Sheet.	✓
All PFI and Service Concession liabilities have been disclosed as long-term liabilities in the Balance Sheet. Per Note 26 of the financial statements, the principal repayments due in one year amount to £6.4m and therefore this element should be disclosed within current liabilities.	✓
Whilst the total number and cost of exit packages disclosed in Note 14 remains the same as reported in the draft financial statements, the allocation of numbers and cost between the bandings has been amended.	✓
Accounting policy disclosures were updated to include the following items: Collection Fund - An accounting policy for the recognition of NNDR income in the Comprehensive Income and Expenditure Statement was added; Employee Benefits - Additional policy wording was added in respect of the accounting treatment for the up-front payment of the LGPS deficit contributions; Ex-Avon Debt – Accounting policy added. The accounting policies were also updated to reflect the transition to IFRS 9 and IFRS 15, including an explanation that comparators had been prepared under IAS 39 and IAS 18 respectively and setting out the differences to accounting treatment.	✓

Audit Adjustments

Misclassification and disclosure changes (continued)

Detail	Adjusted?
The introduction of IFRS 15 resulted in more extensive revenue disclosure requirements, including a disaggregation of revenues under service contracts and also information on performance obligations. These disclosures were not included within the draft financial statements. Management have made additional disclosures in the financial statements to set out all material revenue streams for the Council within the ‘Fees, charges and other service income’ line of Note 7, however there are no disclosures in respect of the Group and no information on the relevant performance obligations which is another requirement of IFRS 15 and the CIPFA Code.	X
In Property, Plant Equipment (Note 19) the draft financial statements identified £36.1m of ‘Impairment losses/reversals recognised in the Surplus/deficit on the Provision of Service’. Upon further investigation it was identified that this value related to the reversal of accumulated depreciation and impairment for this asset class revalued in the year and this was reclassified to the ‘‘Depreciation written out to Revaluation Reserve/Surplus/Deficit on the provision of Services’’ line of the note.	✓
The Council’s draft financial statements disclosed long term investments of £51.9m and short term investments of £86.5m in their financial instruments disclosures (Note 22). There is no disclosure clearly breaking these investments down further to explain the different types and nature of the investments. For example, the Council holds preference shares in Bristol Holding Limited and it is not clear on their value, how they’re accounted for, what the terms of the instrument are and the associated risks. In addition, there was no reconciliation of financial instruments reported to the Balance Sheet as required by the Code.	X
The financial instruments disclosures for investment property and surplus assets did not break down the total values of £249m and £40m respectively into the different types as required by the Code and set out the different valuation methods and assumptions for each class. Management included additional footnote information to the disclosures. We challenged management as to whether some of the inputs were observable to the market (i.e. Level 2) as in our view, inputs such as ‘data and market knowledge from managing the Council’s investment property portfolio’ and ‘the covenant strength for existing tenants’ would not be observable to the wider market and therefore suggest that these would be Level 3. If classed as Level 3, additional disclosures would be required in the financial statements.	X
There were no fair value disclosures (including the fair value hierarchy classification and valuation techniques) for financial assets and liabilities not measured at fair value in the Balance Sheet as required by the Code. Management have updated the financial statements disclosures to include information on the hierarchy classification and the relevant valuation techniques.	✓
The disclosures in respect of Level 3 Fair Value hierarchy disclosures did not fully meet the Code requirements, for example there was no sensitivity analysis of the fair value measurement to changes in unobservable inputs.	X
As part of our sample of Fees and Charges we identified a number of items that related to expenditure rather than income. On discussion with officers, we identified that a specific ledger code had been incorrectly mapped to the ‘Fees and Charges’ line within Note 7, rather than ‘Other Service Expenditure’. As a result, the ‘Fees and Charges’ line and the ‘Other Service Expenditure’ line in Note 7 were both overstated by £11.5m. The gross income and expenditure reported in the Comprehensive Income and Expenditure Statement were both misstated by £11.5m also, though there was a net nil impact on the cost of services.	✓
On review of the senior officers remuneration note, we identified that there was an individual who had been included in 18-19 but not 2017-18. This led to a further exercise reviewing the make up of the note, and officers obtaining detailed information from their agency providers in order to restate the note to accurately reflect those people who should be classified as senior officers with additional disclosures made in the updated financial statements. Our review of the disclosures in the group accounts also identified an adjustment that was made to the Bristol Waste Operations Manager, as the supporting documentation identified that their total remuneration was overstated by £14,420.	✓

Audit Adjustments

Misclassification and disclosure changes (continued)

Detail	Adjusted?
It is not clear from the financial statements disclosures how LOBO options have been taken into account in the fair value information disclosed in the financial instruments disclosures.	X
The introduction of IFRS 9 – Financial Instruments – resulted in transitional disclosure requirements where assets and liabilities had been reclassified to a new financial instrument category. The financial statements do not include all of the disclosures required under these transitional provisions, including some of the qualitative disclosures required by the Code.	X
Note 23 – Nature and Extent of Risks Arising from Financial Instruments – does not include all of the disclosures required under section 7.3.3 of the CIPFA Code, including the methods, assumptions and information used to measure expected credit losses and the Authority's write off policy.	X
On testing of the pooled budgets note, we identified that the disclosure did not agree to the signed S75 agreement. The total funding detailed in Note 11 has changed by £13.1m, from £57.5m to £44.4m. The total expenditure from the pooled budget per Note 11 has changed from £60.7m to £47.3m - a movement of £13.4m.	✓
The assumptions disclosed in Note 32 in respect of the Teacher's Pension Scheme for 2017/18 had not been updated and incorrectly disclosed the 2016/17 values.	✓
A prior period error was identified in respect of financial instrument disclosures. The prior period financial instrument disclosures incorrectly double counted short-term creditors in the calculation of those financial liabilities meeting the criteria of financial instruments. The prior year comparators were updated to reflect the £34.5m adjustment and additional disclosures on the prior period error were included in line with the requirements of accounting standards and the CIPFA Code.	✓
As part of our testing of land and building valuations we corroborated the source data used for individual asset valuations back to our testing of leases to ensure that they were consistent. This identified that the current and prior year disclosures of minimum lease payments incorrectly omitted all operational asset leases and disclosed only investment property leases. The adjustment to the current year is as follows: Not later than one year – increase of £2m Later than one year and not later than five years – increase of £6.3m Later than five years – increase of £14.6m A prior period adjustment was also made to the 2017/18 comparative disclosures to ensure that these were materially accurate and comparable with the current year. In line with accounting standards and the CIPFA Code, a specific disclosure on the impact of the prior period error was included in the financial statements.	✓
There was no disclosure setting out the date of valuation of Heritage Assets, whether the valuation was carried out by external valuers and, where this is the case, the professional qualification that they hold, if any, nor any significant limitations on the valuation as is required by the Code.	X
There was no disclosure in the group accounts on the nature of income and expenses as required by the Code.	X

Audit Adjustments

Misclassification and disclosure changes (continued)

Detail	Adjusted?
The Council included Post Balance Sheet Event disclosures within the single entity and group accounts to reflect events after the Balance Sheet date but before the date of authorisation of the accounts in respect of Bristol Energy Limited and the global Covid-19 pandemic. The PBSE in respect of Covid-19 was made in the single entity Council accounts. No disclosure was made in the group accounts as the group position was not materially different to the single entity. The PBSE disclosure in the group accounts discusses the Council’s investment in Bristol Holding Limited which is consolidated out of the group position and therefore we would expect that this was included in the single entity accounts.	✓
A number of presentational, grammatical and numerical adjustments and additions were made to the financial statements to improve the readability and understandability of disclosures and to ensure that they are in line with the current International Financial Reporting Standards.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

We have reviewed the unadjusted misstatements identified as part of the audit and do not consider that they are individually or cumulatively material to our audit opinion.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
Our testing of the Council Dwellings depreciation charge identified an error in the calculation formula which led to an overstatement of the depreciation charge of £0.9m. We have made a recommendation in Appendix A in respect of HRA depreciation.	Cr Housing Revenue Account £0.9m	Dr Property, Plant and Equipment £0.9m
The Council's actuary, Mercer, have calculated the Council's net defined benefit pension liability taking into account the pre-2021 allowance impact of Guaranteed Minimum Pension. In our view, the post 2021 allowance impact should also be included in the Council's net defined benefit pension liability. The post 2021 allowance would add an additional £5.4m to the Council's net defined benefit pension liability.	Dr Net cost of services £5.4m	Cr Other long-term liabilities £5.4m
As part of our review of the valuation of the Council's unquoted equity investment at 1 April 2018 we engaged a valuation expert. The lowest end of our expert's valuation range was £4m higher than the Council's opening valuation of £4m, which suggests that the value at 1 April 2018 could be at least £4m understated. The valuation was required as an opening adjustment due to the implementation of IFRS 9. As such, there would be no impact on the Council's Comprehensive Income and Expenditure Statement as any implementation adjustments were accounted for through opening reserves movements in line with the CIPFA Code. We have made recommendation in Appendix A that management engage their own valuation experts to value their complex investments.	N/A	Cr Capital Adjustment Account at 1 April 2018 £4m Dr Long Term Investments at 1 April 2018 £4m

Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
The Council has entered into a number of Parent Company Guarantees (PCGs) in respect of Bristol Energy Limited with energy suppliers. The Council originally disclosed these PCGs as a contingent liability in Note 38 of the financial statements. We challenged management's conclusion that the PCGs were a contingent liability and requested that management consider the PCGs under IFRS 9 – Financial Instruments – and IFRS 4 – Insurance Contracts. The Council undertook a review against these accounting standards and concluded that the PCGs came into the scope of IFRS 9 and we concluded that it was appropriate that these agreements formed financial liabilities as the PCGs are a contractual obligation to pay cash to the suppliers of Bristol Energy Limited contingent on the failure of Bristol Energy Limited to fulfill its contractual obligations. The liabilities would be accounted for as fair value through profit and loss. The Council have used a probability weighted assessment to derivate the potential financial liability at 31 March 2019, being £854k. We have considered this assessment and have concluded that it is a reasonable estimate. We have also considered the Council's assessment and based upon the exposure at 31 March 2019 and the PCGs in place, are satisfied that this could not be a material liability at 31 March 2019. The Council did not update the financial statements to reflect the calculated financial liability or the related financial instrument disclosures.	Dr Deficit on Provision of Services £0.9m	Cr Current Liabilities £0.9m
Difference between management's estimation of the NDR provision and audit estimation of NDR provision (per page 11).	Dr Net cost of services £3m	Cr Provisions £3m
PPE and Investment Property valuation changes, as fully explained on the next page.	Dr Other Comprehensive Income and Expenditure £4.6m Dr Financing and Investment Income and Expenditure £2.5m	Cr Property, Plant and Equipment £4.6m Dr Revaluation Reserve £4.6m Cr Investment Properties £2.5m Dr Capital Adjustment Account £2.5m

Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
We identified a difference of £1m between the debtor included in the balance sheet in respect of VAT receivable and the actual VAT received post year end. This was caused by a timing difference, with the VAT return is completed in May and the ledger closed in April on estimates. More up-to-date information identified that the Council had understated it's year end VAT debtor by £1m.	Cr Net cost of services £1m	Dr Debtors £1m
During our testing of creditors we identified a number of trivial differences between accruals estimated and the actual expenditure incurred subsequently. The total errors amounted to a trivial value, however when extrapolated over the whole population, the error is projected at £844,207 which is above triviality. As an extrapolated value, we would not expect management to adjust for this.	Dr Net cost of services £0.8m	Cr Creditors £0.8m

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments and unadjusted misstatements identified during the 2018/19 audit in respect of property, plant and equipment valuations.

Detail
The Council's valuer completed a review of all land and building assets not valued at 31 March 2019 in order to determine whether their book value could be materially misstated when compared to the current value. This review identified the following changes to property, plant and equipment categories based upon the indices used by the valuer: Land and buildings – increase of £26.5m Surplus assets – increase of £0.7m Council dwellings – decrease of £28.4m The draft financial statements did not reflect these adjustments as the net movement of £1.2m was not material, and all categories are shown in the 'Property, plant and equipment' line of the Balance Sheet. However, individually these values are material, and as they are separately disclosed in the notes to the financial statements, these notes were materially misstated. As such, we requested that they were updated. The Council updated the valuation disclosures for Land and buildings and Surplus assets by the values reflected above. The Council also reduced the valuation of Council dwellings by £27.2m. This is £1.2m less than the Council's valuation report, and therefore the 'Property, plant and equipment' and 'Unusable reserves' lines in the Balance Sheet are both misstated by £1.2m. The values were adjusted by this amount as the difference of £1.2m was immaterial and it meant that the Balance Sheet did not require amendment. As such, the adjusted Balance Sheet is £1.2m overstated and the net book value disclosures in respect of Council Dwellings were also £1.2m overstated. The valuer's work also considered the Council's investment asset portfolio, and this identified an overstatement in value of these assets of £2.5m. The adjustment was not made to the Balance Sheet or disclosure notes. Our challenge of the indices used by the Council's valuer as part of their final valuation report also identified that some of indices used in the valuations were different to the evidence provided. Using the corrected indices the movement in land and building and surplus assets should have been an increase of £23.8m rather than the £27.2m included in the valuer's report. The financial statements were not updated for this change. As such, there is a further £3.4m unadjusted overstatement in the Balance Sheet relating to property, plant and equipment. We have made a recommendation in Appendix A in respect of the Council's valuation programme. The total adjustments made to the financial statements are as follows: Land and buildings (disclosure notes) – increase of £26.5m Surplus assets (disclosure notes) – increase of £0.7m Council dwellings (disclosure notes) – decrease of £27.2m The total unadjusted misstatements are as follows: Property, plant and equipment (Balance Sheet) - £4.6m overstated Council Dwellings (disclosure notes) - £1.2m overstated Land & buildings (disclosure notes) - £3.4m overstated Investment assets (Balance Sheet) - £2.5m overstated

Audit Adjustments

Impact of unadjusted misstatements (total)

The table below summarises the total impact of unadjusted misstatements and uncertainties.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
Council Dwellings depreciation	Cr Net cost of services £0.9m	Dr Property, Plant and Equipment £0.9m
Guaranteed Minimum Pension	Dr Net cost of services £5.4m	Cr Other long-term liabilities £5.4m
Parent Company Guarantees	Dr Deficit on Provision of Services £0.9m	Cr Current Liabilities £0.9m
NDR provision	Dr Net cost of services £3m	Cr Provisions £3m
PPE and investment property	Dr Other Comprehensive Income and Expenditure £4.6m Dr Financing and Investment Income and Expenditure £2.5m	Cr Property, Plant and Equipment £4.6m Cr Investment Properties £2.5m
Debtors	Cr Net cost of services £1m	Dr Debtors £1m
Creditors	Dr Net cost of services £0.8m	Cr Creditors £0.8m
TOTALS	**Dr Total Comprehensive Income and Expenditure £15.3m**	**Cr Net Assets £15.3m**

Fees

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

Audit Fees	Scale fee	Final fee	2017/18 previous auditors' Final
Council Audit	£156,839	£156,839	£203,687
Council Audit – additional fee	N/A	£76,000*	£31,529
Total audit fees (excluding VAT)	**£156,839**	**£232,839**	**£235,396**

Note that the 2017/18 audit and non-audit fees were payable to the Council's previous auditor BDO LLP.

*This has recently been independently reviewed and approved by PSAA.

Non Audit Fees

Fees for other services	2018/19 Fees	2017/18 previous auditors' fees
Audit related services:		
Agreed upon procedures on the Council's Housing Benefit Subsidy Claim 2018-19	£22,000**	£20,427
Agreed upon procedures on the Council's Teacher's Pension Return 2018-19	£8,000	£7,950
Agreed upon procedures on the Council's Housing Capital Receipts return (2015-16 to 2017-18)	£12,000	N/A
Agreed upon procedures on the Council's Housing Capital Receipts return 2018-19	£4,000 (TBC)	N/A
Agreed upon procedures on the Council's Strategic School Improvement Fund grant return	£5,000	N/A
Non-audit services:		
'Brexit Room' – Facilitated workshop in respect of Brexit planning	£10,000	N/A
Bristol Energy Limited – Smart Meter Installation Code of Practice (SMICoP) compliance review	£3,128	N/A

**Our testing on the 2018-19 subsidy claim has been completed and this is the fee that we have calculated in line with the contract for this work. The Council have accrued £19,000 in respect of this work as an estimate of the cost as the work had not been completed at the time the financial statements were drafted. The additional cost will be recognised in the 2019/20 financial statements.

Fees

We have reconciled the fees on the previous page to the Council's financial statements (Note 14 – External Audit Costs) below.

Audit Fees per financial statements

	Fee	Comment
Fees payable to the External Auditor with regard to external audit services carried out by the appointed auditor for the year	£156,839	Per the PSAA scale fee
Fees payable to the External Auditor for the certification of grant claims and returns for the year:		
Agreed upon procedures on the Council's Housing Benefit Subsidy Claim 2018-19	£19,000	Estimated fee
Agreed upon procedures on the Council's Housing Capital Receipts returns (2015-16 to 2017-18)	£12,000	Per agreed fee
Fees payable in respect of other services provided by the External Auditor during the year:		
'Brexit Room' – Facilitated workshop in respect of Brexit planning	£10,000	Per agreed fee

Fees for the following services have not been accrued in the 2018/19 financial statements as the fees have yet to be agreed and the work has not yet commenced:

Agreed upon procedures on the Council's Teacher's Pension Return 2018-19

Agreed upon procedures on the Council's Housing Capital Receipts return 2018-19

The fees for the Certification of SSIF grant for Department for Education were not accrued in the 2018/19 financial statements as the work was not agreed or completed until July 2019.

The fees for the SMICoP grant work undertaken for Bristol Energy Limited are not included in Note 14 of the Council's financial statements as the work related to a Group entity rather than the Council as a single entity.

The Council will also need to reflect the additional fees payable for the audit for 2018/19 totalling £76,000 that have been approved by PSAA.