Public

External Audit Plan

Year ending 31 March 2020

Bristol City Council

June 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Bristol City Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bristol City Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Bristol Holding Limited, which in turn consolidates the financial information of Bristol Energy Limited, Bristol Waste Company Limited and Goram Homes Limited. 2019/20 is the first year of consolidation of Goram Homes Limited.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Valuation of land and buildings; • Valuation of investment properties; • Valuation of net pension fund liability; • Valuation of long-term investments; • Completeness and accuracy of the Authority's new payroll system; • Covid-19; • Fraudulent revenue recognition (assumed risk at all entities under ISA 240, rebutted in part); and • Management override of controls (assumed risk at all entities under ISA 240). We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £14.3m (PY £17.5m) for the group and £13.2m (PY £16.5m) for the Authority, which equates to approximately 1.2% of your prior year annual gross expenditure. In the previous year we had set materiality at 1.5% of annual gross expenditure, reflect our assessment of risk and complexity at the time. Since then, the Financial Reporting Council has raised its expectations on the rigour and challenge of external audit in the public and private sector, and there is heightened government and regulatory interest in audit outcomes. We have determined a lower level of headline materiality is appropriate in 2019/20, moving from 1.5% to 1.2%. The extent of this movement is consistent with our calculations at other organisations. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.66m (PY £0.825m).

1. Introduction & headlines (continued)

Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Financial sustainability; and • Governance arrangements for the Authority's subsidiaries.
Audit logistics	Our interim visit will take place in March 2020 and our final visit is planned to take place between June and November 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our proposed fee for the audit at our planning stage is £211,189 (PY: £232,839) for the Authority, subject to the Authority meeting our requirements set out on page 15 and noting that we will need to engage auditors experts to support our work, including in relation to the valuation of the Authority's long term investments, that will incur additional fees. See page 17 for more details.
Independence	We have complied with 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..

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Bristol City Council there were budget pressures in 2019/20, especially in relation to the delivery of Adult Social Care savings. The Authority has agreed a balanced budget for 2020/21, which requires additional savings and some non-recurrent funding.

At a group level, the Authority's subsidiary company Bristol Energy Limited continues to be reliant upon Authority funding to support it's operations. Recent market trends have highlighted additional risks for Bristol Energy Limited. The Authority has commissioned professional advisors to undertake an assessment of Bristol Energy and it is anticipated that future actions will be determined prior to the end July 2020.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Covid-19

The coronavirus global pandemic is impacting how people work. The Authority plays a key role is supporting the public in this time and service and financial pressures will continue to emerge for all organisations, including the Authority, as the lockdown continues and this impacts upon the local and national economy further.

Whilst it is a constantly evolving picture, we are expecting the delivery of the audit to be impacted by staff at audited bodies and audit teams working remotely to avoid spreading the virus as well inevitable sick days reducing staff capacity.

The government has approved legislation confirming that the deadline for local government financial audits will be extended to 30 November 2020 from 31 July 2020. Authorities need to have approved their draft financial statements by 31 August 2020 at the latest.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

We will consider the governance arrangements in place to monitor and manage the Authority's investments in their subsidiary companies as part of our work in reaching our Value for Money conclusion.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set further in our Audi Plan, is subject to PSAA agreement.

Since early March, we have been liaising with members of your finance team to discuss how we can work together effectively to deliver the audit despite the restrictions on unnecessary physical interaction. We will also consider how Covid-19 impacts the Authority's finances, services and ability to continue as a going concern

Following the government's announcement on Monday 16th March, we also closed our offices for the foreseeable future and have asked our people to work from home rather than in the office.

All of our staff are set up to work remotely and we use a variety of tools to communicate and share information such as Microsoft Teams and Inflo.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

<table>
<tr><th>Component</th><th>Significance</th><th>Audit Scope</th><th>Risks identified</th><th>Planned audit approach</th></tr>
<tr><td>Bristol City Council</td><td>Individually financially significant to the group</td><td>Audit of the financial information of the component using component materiality</td><td>See pages 7 to 11.</td><td>Full scope UK statutory audit performed by Grant Thornton UK LLP</td></tr>
<tr><td>Bristol Energy Limited</td><td>Likely to include group significant risks</td><td>Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements</td><td>Risk of revenue recognition is deemed to be a group risk.</td><td rowspan="4">Note although these components are not individually significant to the group, full scope UK statutory audits are performed by PricewaterhouseCoopers LLP. We have liaised with the component auditor to ensure that we will be provided with the findings from these full scope UK statutory audits prior to the planned group audit report date. We have communicated the risks we have identified at a group level to ensure that we obtain sufficient assurance over these from the work of the component auditor.</td></tr>
<tr><td>Bristol Waste Company Limited</td><td>Not significant but material</td><td>Analytical procedures at group level</td><td>None.</td></tr>
<tr><td>Goram Homes Limited</td><td>Neither significant nor material</td><td>Analytical procedures at group level</td><td>None.</td></tr>
<tr><td>Bristol Holding Limited</td><td>Not significant but material</td><td>Analytical procedures at group level</td><td>None.</td></tr>
</table>

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (partially rebutted)	Group	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 Authority, we have determined that the risk of fraud arising from revenue recognition at the Authority 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 have also rebutted this risk for certain group entities, as we do not consider there to be a risk of material misstatement due to fraud relating to revenue recognition for the following reasons: Bristol Waste Company Limited – the majority of the Company's revenue is derived from contracts held with the Authority that are agreed in advance at an agreed price. Upon consolidation, Bristol Waste Company Limited revenue at a group level is immaterial. Bristol Holding Limited – revenue for the company is significantly below our group materiality level. Goram Homes Limited – revenue is not expected to be material at a Group level. We consider that the risk of fraudulent revenue recognition exists at Bristol Energy Limited due to the significance of the company's turnover and the estimation required in recognising accrued income. We have therefore identified the occurrence and accuracy of Bristol Energy Limited's income as a significant risk to the group.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Authority	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.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	Authority	The Authority 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 Authority'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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • discuss with the valuer the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • engage an auditor's expert to assess the methodology and key assumptions adopted within the valuation; • test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and • evaluate 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.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of investment properties	Authority	The Authority is required to revalue its investment properties at fair value on an annual basis at 31 March 2020. 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. 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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • discuss with the valuer the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • test revaluations made during the year to see if they had been input correctly into the Authority's asset register.
Valuation of net defined benefit pension liability	Authority	The Authority'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 Authority'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 will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake 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 • obtain 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.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of long term investments	Authority	The Authority holds material long term investments in it's balance sheet. These include the estimated valuation of the investment it's subsidiary companies and the estimated valuation of an unquoted equity investment. These investments 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 Authority's long term unquoted investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We will: • discuss the valuation techniques adopted with management and obtain their calculations for the valuation of the unquoted equity investments and assess these against accounting standards; and • engage our internal valuations experts to review management's estimates and to provide us with assurance over the valuation of the Authority's unquoted equity investments.
Incomplete or inaccurate financial information transferred to the new payroll system	Authority	From 1 April 2019 the Authority implemented a new payroll system. 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 new payroll system as a significant risk.	We will: • map the closing balances from the previous system to the opening balance position in the new system to ensure the accuracy and completeness of the financial information contained in the new system. • Statistical sampling of employee benefits

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	Group and Authority	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; • volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; • financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk.	We will: • work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach; • liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise; • evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report and plan to do this in November 2020.

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

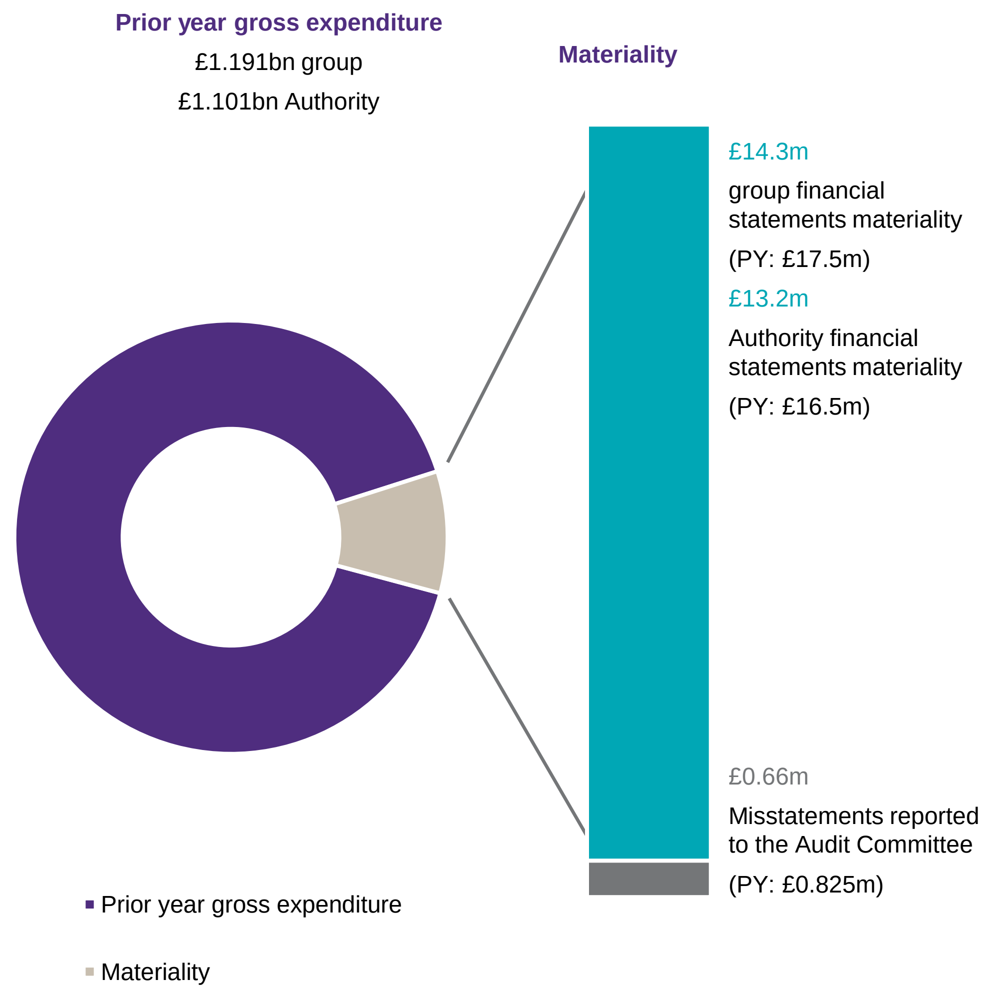
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £14.3m (PY £17.5m) for the group and £13.2m (PY £16.5m) for the Authority, which equates to approximately 1.2% of your prior year annual gross expenditure. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redmond.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.66m (PY £0.825m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



7. Value for Money arrangements

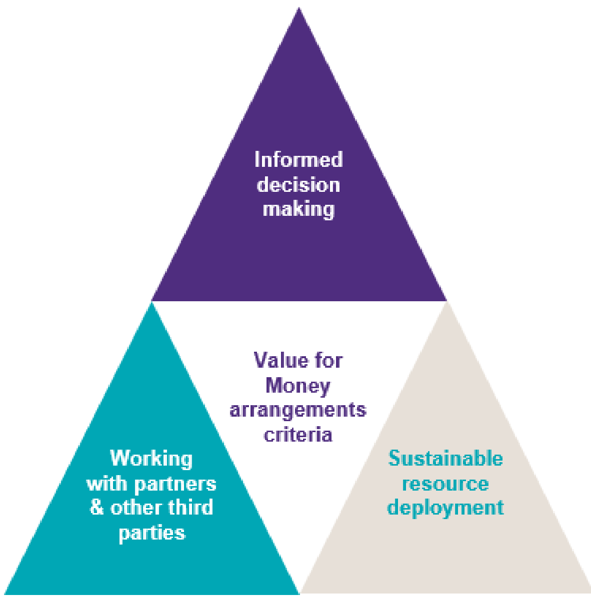
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance 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:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Financial sustainability

The Authority needs to ensure that it's financial plans and the assumptions that underpin them remain realistic and sustainable. If they are not, there is a risk that the Authority does not deliver balanced budgets in the short to medium term and that the Authority's resource deployment is not sustainable.

We will:

- review the Authority's revenue outturn position, including the balance between recurrent and non-recurrent steps taken in delivering the outturn;
- assess the arrangements for monitoring and managing delivery of budget and savings plans for 2019/20;
- review the Authority's arrangements for developing and agreeing its 2020/21 budget and updated medium term financial plan, including the identification of savings plans, and considering the level of risk associated with these plans;
- consider the impact of Covid-19 on 2020/21 financial plans, both income and costs and business continuity – note that most of the impact of the pandemic on the Authority's overall arrangements has taken place in 2020/21 and our consideration as part of this 2019/20 audit will therefore be focussed on those arrangements in place up and until 31 March 2020;
- assess the adequacy of the Authority's reserves; and
- review the Authority's capital planning and reporting arrangements and considering how these link to the Authority's growth and regeneration plans.

Continues on page 15

7. Value for Money arrangements

Governance arrangements for the Authority's subsidiaries

The Authority made changes to the governance arrangements in place over it's subsidiary companies in 2019/20. Recently concerns regarding the business plan and future financial sustainability of Bristol Energy have required intervention from the Authority.

With particular focus on Bristol Energy, we will review:

- the governance structure, roles and responsibilities of the Mayor, Committees and Boards involved for the Holding Company and its subsidiaries to ensure proper governance;
- how the Authority is monitoring planned returns and any action taken to ensure they continue to deliver value for money to the Authority; and
- informed decision making based on key decisions made in 2019/20 to ensure they were based on sound understanding and reliable information and data. We will consider;
    - the quality of supporting documentation and business decisions provided to decision makers;
    - training, support and guidance provided to decision makers; abd
    - the performance monitoring arrangements to ensure decision makers understand performance against agreed objectives (both shareholder and Board) and the contribution made to the Authority's wider strategic objectives.

8. Audit logistics & team

Jon Roberts, Key Audit Partner

Jon leads our relationship with you and is a key contact for the Section 151 Officer and Audit Committee. Jon takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.

Jackson Murray, Director

Jackson's role involves overseeing the day to day planning and execution of the audit, ensuring the audit requirements are fully complied with and producing reports for the Audit Committee. He will respond to ad-hoc queries whenever raised and meet regularly with the Section 151 Officer and members of the finance team.

Beth Garner, Manager

Beth's role is to co-ordinate the on-site delivery of audit tasks through her own work and that of junior team members. She liaises with the finance team throughout audit visits and will keep them up to date on progress and any issues arising throughout the year.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

We expect the audit to be completed remotely given the current Covid-19 pandemic and are liaising with the Authority to ensure that this is successful. We are also proposing to improve the audit completion date achieved over the last two financial years. We have continued to recruit to our Bristol public sector audit team and have our planned establishment in place to deliver the audit.

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Authority Audit (excluding VAT)	£235,216	£232,839	£211,189

Assumptions:
In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of any new proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities.

Audit area	£	Rationale for fee variation
Scale fee	156,839	Set in March 2018 by PSAA.
Raising the bar	8,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Valuation of net pension liabilities	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,350	We have engaged our own audit expert, Wilks Head & Eve LLP, and have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations at all major audits. This increase includes an estimate for the fee payable to the auditor's expert, which we estimate will be in the region of £5,000.
Long term unquoted investment valuations	17,500	You have unquoted equity investments that are valued at fair value annually. We are required to engage our own auditor expert to review these valuations. The estimate is based upon the cost of completing this work in the 2018/19 audit year. Should independent experts be commissioned by the Authority our work will reflect the additional level of assurance gained with a resultant change in planned fees.
Implementation of a new payroll system	4,500	The Authority implemented a new payroll system from 1 April 2019 and we have identified a significant risk in respect of the completeness and accuracy of the data transfer – see page 10 for more details.
Public Interest Entity	4,000	As the authority holds listed debt, it meets the FRC definition of a Public Interest Entity. Certain additional Ethical and Quality standards apply, including the need for us to produce an Enhanced Audit Report.
Change to group structure	2,500	In 2019/20 the Authority will consolidate an additional subsidiary into it's financial statements – Goram Homes Limited. This will require additional audit procedures to assess the proposed accounting treatment under accounting standards, as well as additional time spent on the group consolidation and associated disclosures. We are also required to liaise with the subsidiary's auditor and review their audit file in our role as group auditor.
Bristol Energy	5,000	Additional work in respect of the group going concern assumption and in relation to our Value for Money responsibilities is expected in relation to the financial position of Bristol Energy Limited.
Revised scale fee (to be approved by PSAA)	**211,189**	Proposed fee at the planning stage of the audit.

Note that further additional may be required for 2019/20, including in relation to issues with working papers and audit delays which were experienced in the prior year. As we become aware of the potential for further additional fees we will discuss these with the Section 151 Officer and report these to those charged with governance. All fee variations require approval from PSAA.

10. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We are aware than an ex-Grant Thornton UK LLP partner was employed by the Authority. We sought ethical advice on this issue which determined that this would not result in a breach of relevant ethical standards and that this situation did not pose a threat to our independence as your external auditor. We continue to monitor this situation to ensure that this remains the case. We have complied with 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.

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 and PSAA’s Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

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

<table>
<tr><th>Service</th><th>£</th><th>Threats</th><th>Safeguards</th></tr>
<tr><td colspan="4">Audit related:</td></tr>
<tr><td>Agreed upon procedures on the Authority’s Housing Benefit Subsidy Claim 2019-20</td><td>TBC</td><td rowspan="3">Self-Interest (because this is a recurring fee)
Self Review
Management</td><td rowspan="3">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 significantly lower than the proposed total fee for the audit at the planning stage of £211,189, 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
From past experience, we do not expect any material changes to accounting entries as a result of our 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.</td></tr>
<tr><td>Agreed upon procedures on the Authority’s Pooling of Housing Capital Receipts return 2019-20*</td><td>£5,000</td></tr>
<tr><td>Agreed upon procedures on the Authority’s Teacher’s Pension Return 2019-20*</td><td>£8,000</td></tr>
</table>

*At the time of drafting we are still finalising the work on the 2015-16 to 2018-19 Pooling of Housing Capital Receipts returns that were reported in our 2018-19 ISA 260 report. The fees for this work have yet to be billed and are expected to be £16,000.

Independence & non-audit services (continued)

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendices

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.