

# Audit Progress Report and Sector Update

Bristol City Council  
Year ending 31 March 2020

November 2020



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# Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at November 2020 – financial statements

## Financial Statements Audit

We received the draft financial statements and officers provided initial working papers to support these at the end of August 2020. The audit to date has been undertaken remotely given the restrictions that remain in place due to the Covid-19 pandemic and finance officers and the audit team are holding twice-weekly progress calls to ensure that the audit progresses smoothly and that any issues can be raised in a timely manner.

Our experience from other organisations is that the remote audits do take more time than we would have expected it to under normal conditions. We continue to utilise the technology available to us to ensure that we can progress the audit as efficiently as possible whilst obtaining the assurances that we require to allow us to discharge our responsibilities.

As our second year as your auditors there are some efficiencies to the audit process as a result of the learning from the 2018/19 audit for both ourselves and the finance team, and between us we have sought to tackle some of the areas that caused challenge during the previous year's audit.

We set out below some of the progress we have made against our significant risk areas:

### Management override of controls (presumed risk under ISA 240)

We are awaiting evidence of leavers in year prior to being able to select our sample of journals for review.

We raised an issue in 2018/19 regarding spreadsheet journal authorisations. This was not fully resolved by the beginning of the 2019/20 financial year.

### Revenue recognition (presumed risk under ISA 240 – relates to the Group accounts and Bristol Energy specifically)

This is a risk at the group level and the company auditor, PWC, audit the financial statements of Bristol Energy Limited. Once their audit is complete we will obtain assurances from PWC over this risk.

We await the conclusion of the company audits by PWC before considering the group consolidation workings.

## Valuation of land and buildings

It took a considerable amount of time to obtain the information required to allow us to pick our sample of land and buildings asset valuations to test. We were able to select this sample at the beginning of November following us beginning this process at the start of September. Our sample is now with the Council's valuers to compile the relevant supporting evidence. We will work with officers to agree essential improvements to your working papers in this area for the future.

Our sample testing of the valuations of the Council's surplus assets and Council Dwellings is nearly complete.

We have identified an adjustment to the valuation of Council Dwellings that was not posted to the draft financial statements, totalling £8m. The Council's valuer identified a total movement on Council Dwelling of £13m, however the Council only posted £5m of this adjustment to the draft financial statements. We expect that this adjustment will be processed in the final audited financial statements.

## Valuation of Investment Properties

We have selected our sample of investment property valuations to review and are currently awaiting responses to some specific queries relating to these items.

## Valuation of the defined net benefit liability

We have completed a significant amount of our work in this area and await responses to our final queries from the actuary and Avon Pension Fund.

We also await the letter of assurance from the auditor of Avon Pension Fund.

## Incomplete or inaccurate financial information transferred to the new payroll system

We have begun to review the reconciliation between the old and new payroll systems.

We have also selected our sample of individual payments for testing.

## Valuation of long term investments

Our valuation colleagues have reviewed the Council's expert's valuation of the unquoted equity investment that it holds in relation to the port. They have concluded that the valuation is not unreasonable. We are satisfied that no material issue arises from this valuation.

# Progress at November 2020 – Value for Money

We have also shared our valuation colleagues' initial queries on the valuation of Bristol Energy Limited at 31 March 2020 with finance officers for consideration and response.

We have also considered the accounting treatment of the loan provided to Goram Homes Limited in 2019/20 and concluded that at 31 March 2020 the classification and treatment was appropriate. Management should review this treatment annually in line with the Goram Homes Limited business plan and accounting standards.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

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

Details of our initial risk assessment to determine our approach was included in our Audit Plan. We will report our work in the Audit Findings Report.

## Value for Money – risk assessment

Within our audit plan we identified two significant risks:

- Financial sustainability
- Governance arrangements for the Council's subsidiaries. In view of recent events this review has focused on the Council's arrangements relating to Bristol Energy.

### Financial Sustainability

We have reviewed the Council's 2019/20 revenue outturn position including the delivery of planned savings, as reported to Cabinet in June 2020. The Council reported a deficit of £5.3m, with the two key overspends being in Adult Social Care and Commercialisation and Citizens. The Council also only partially delivered its saving plans of £17.8m, with £7m being carried forward to 2020/21, increasing the financial pressure on 2020/21.

We have begun to consider the Medium Term Financial Planning process. At the onset of the lockdown, finance officers undertook scenario planning, considering the impact of the lockdown. Considerations of the short and longer-term financial impact of Covid-19 on the Council continue and are better understood as time elapses. As the lockdown occurred late in the financial year, the impact of Covid-19 in 2019/20 has been moderate.

We have discussed these arrangements with finance officers and will continue to have discussions with management as we address the work required. We will report our Value for Money conclusion in the audit findings report.

# Progress at November 2020 – Value for Money (cont'd)

## Value for Money – risk assessment continued

### Review of Governance arrangements – Bristol Energy

We considered that the governance and informed decision making arrangements in place for Bristol Energy to be a potential significant risk to the Council's VFM conclusion. Therefore we have begun a detail review that focuses on arrangements within the Council. We have not considered the arrangements within Bristol Holding Company or any of the subsidiaries.

The review is being undertaken in two stages:

1. Strategic overview - to establish if the adequacy of arrangements can be determined from a high-level review of the key decisions made in 2019/20, supporting documentation and a limited number of interviews
2. Detailed review - a deep dive to establish if the Council had adequate arrangements in place to take properly informed decisions.

We have completed the strategic overview and a large proportion of stage two.

The following is a summary of the work undertaken to date:

Virtual meetings with:

- Mayor
- Deputy Mayor
- Independent Shareholder Advisors
- Chair Audit Committee
- Executive Chair Bristol Holding
- Monitoring officer
- Solicitor who supports the Council's companies and the Shareholder Group
- Chair of the Overview and Scrutiny Management Board
- Vice Chair of the Overview and Scrutiny Management Board
- Director of Finance
- Shareholder Liaison Manager

Review of documentation which has included:

- terms of reference and roles and responsibilities for all committees and groups involved in the governance arrangements
- Constitution
- articles of association and shareholder agreements for Bristol Energy
- minutes and papers for the committees and groups
- advice provided by third parties to support the decision making process
- performance management information provided in 2019/20.

We are also considering the:

- key decisions taken in 2019/20 - approval of 2019/20 and 2020/21 business plan including documentation provided, advice relating to these decisions and why the 2020/21 business plan was subsequently considered not fit for purpose
- options appraisal and decision to pursue an accelerated sale of BE
- reserved matter decisions taken for BE in 2019/20
- involvement of City Leap and its impact on decision making.

We have received a request for consideration of a public interest report. This request is being considered alongside our value for money conclusion work and at this stage we are looking to make our decision at the same time that we conclude on value for money arrangements.

### Joint Local area SEND inspection

In November 2019 the Council received a letter setting out the findings of a joint Ofsted and the Care Quality Commission (CQC) inspection. As a result of the findings of this inspection, and in accordance with the Children Act 2004 Regulations 2014, the inspectorate determined that a Written Statement of Action was required because of significant areas of weakness in the local area's practice. The Council and the Clinical Commissioning Group are jointly responsible for submitting the written statement to Ofsted.

We consider that this is an additional significant VfM risk. We will consider the joint Written Statement of Action produced in response to this inspection and the progress made to date by the Council since the Statement of Action was issued.

# Progress at November 2020

## Other matters

### Objection

We have received an objection from a local elector in accordance with paragraph 27 of the Local Audit and Accountability Act 2014. The objection is not of a financial or accounting nature and relates to governance and HR. We will consider this objection in accordance with the requirements of the legislation, and we do not expect it to impact on our audit opinion on the financial statements.

# Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p><b>Fee Letter</b></p> <p>Confirming audit fee for 2019/20.</p>	April 2019	Complete
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019/20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	July 2020	Complete
<p><b>Audit Findings Report</b></p> <p>We anticipate that the Audit Findings Report will be reported to the January Audit Committee.</p>	January 2021	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	January 2021	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	February 2021	Not yet due



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# LG Sector update



# The Redmond Review

## The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review” was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes “A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process.”

### Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council’s (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

### The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

### How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

# Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

## Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

## The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

## Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)

The Auditor Guidance Notes can be accessed here:

<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf>

