Public

Grant Thornton

The Audit Findings for Bristol City Council

Year ended 31 March 2020

March 2021

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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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. In addition to the challenges of working from home, the Council has overseen the administration of a significant number of grants to businesses, the closure of schools and car parks and has dealt with the additional challenges of reopening services under new government guidelines. The finance team have been required to work from home, using remote access to financial systems during the accounts production timetable. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the draft financial statements up to 31 August 2020.	We factored the Covid-19 pandemic into our audit risk assessment and identified a financial statement risk as a result. We did not identify any additional significant risks related to Covid-19 in respect of our Value for Money Conclusion. Further detail on our audit response to Covid-19 is set out on page 6. Restrictions for non-essential travel and social distancing have meant both Council and audit staff have worked from home during the audit process. The has involved increased use of video calling and increased audit procedures to gain assurance over the completeness accuracy of information produced by the entity. This audit has resulted in the audit process taking longer than normal due toa number of factors, including some of the inherent limitations of conducting an audit remotely. A working draft version of the financial statements was produced for the Audit Committee and an updated draft was prepared for the special Audit Committee 27 August. The draft financial statements were noted by Audit Committee and published on the Council's website on 31 August 2020.
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 consistent with the financial statements or our knowledge obtained in the audit.	Our audit work to date has been completed remotely from August 2020. Our findings are summarised on pages 5 to 22. We have identified adjustments to the financial statements that are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete although we await finalisation of the following: • receipt of management's cashflow forecast to April 2022; • final supporting evidence for elements of our samples of debtors, creditors, other service expenditure, fees and charges income, grants income and grants received in advance; • finalisation of quality control reviews; • receipt of management representation letter (on the Committee's agenda); and • final review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.

Headlines

Financial statements (continued)		Our anticipated audit report opinion will be unqualified but will include reference to material estimation uncertainty regarding the valuation of Council property and the property investments within its pensions assets.
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, except for in relation to the informed decision making criteria. We therefore anticipate issuing a qualified 'except for' value for money conclusion. Our detailed findings, including our intention to issue a qualified conclusion in respect of Value for Money were reported to the Council's Audit Committee held 25 January 2021 and we can confirm that these findings continue to remain appropriate at the time of formally concluding our audit for the year.
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 have completed the majority of work under the Code but are unable to issue our completion certificate until we complete the specified procedures on the Council's Whole of Government Accounts return on behalf of the National Audit Office and also concluded our consideration of an objection received from a local elector under the Local Audit and Accountability Act 2014. As previously reported to members, we are continuing to consider the application of formal audit powers regarding the Council's investment in Bristol Energy Limited. Our certification of the 2019/20 audit will not, however, be dependent on this consideration.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

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 to assess the significance of each component to determine the planned audit response. From this evaluation we determined that audit procedures for Bristol Holdings Limited, Bristol Waste Company Limited, Bristol Energy Limited and Goram Homes 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.

Note that during our audit we changed our group audit approach to obtaining assurance over Bristol Waste Company Limited. In our Audit Plan we stated we would conduct analytical procedures; however we undertook targeted procedures on the consolidated transactions and balances of Bristol Waste Company Limited to obtain the assurances that we required as group auditor in the most efficient and effective manner, whilst also providing a higher level of assurance.

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 levels remain the same as reported in our audit plan.

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements	£14,300,000	£13,200,000	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, along with the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redmond, we deemed that 1.2% was an appropriate rate to apply to the expenditure benchmark. We also applied this to the Group.
Trivial matters	£660,000	£660,000	5% of materiality was deemed an appropriate level for triviality.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 **Group** 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: • worked with management to understand the implications the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts. The approved draft financial statements were provided on 31 August 2020, the date of the updated deadline for publication of draft financial statements for 2019/20; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation experts in accordance with national RICS guidance; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology and to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • reviewed the component auditor's consideration of the use of the going concern assumption at the subsidiary companies. Conducting a remote audit led to some inherent inefficiencies, which have resulted in the audit taking longer than we would have normally expected. The benefit of having face to face conversations to ask and resolve audit queries was lost which meant that some minor issues or queries took a number of video calls to resolve when normally ourselves and officers could do so quickly via a conversation. As noted above, the Covid-19 pandemic resulted in land and building and investment property valuations being reported on a 'material uncertainty' basis by the Council's valuers. The Council's valuation experts followed national guidance from RICS in making such disclosures. The Council reported these material uncertainties in Note 4 of the financial statements. The disclosures were updated to include reference to the investment properties held by the Avon Pension Fund on behalf of Bristol City Council as the valuation of these assets, a proportion of which are subsequently reflected in Bristol City Council's net defined benefit liability, were also reported on a material uncertainty basis. No issues were identified from our review of the component auditor's work.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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.	In our Audit Plan we confirmed that we rebutted this presumed significant risk for Bristol City Council, Bristol Waste Company Limited, Bristol Holding Limited or Goram Homes Limited and this remains the case. 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 and a 'bottom up' calculation 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 **Group and Council** 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. 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: • evaluated the design effectiveness of management controls over journals; • confirmed the component auditor had evaluated design effectiveness of management override of controls; • analysed the journals listing and determine the criteria for selecting high risk unusual journals and tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • confirmed the component auditors had analysed the journals listing and appropriately sample tested high risk and unusual journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We made a recommendation in respect of journal authorisation in our 2018/19 audit and we have reported progress against this in Appendix B. Whilst no issues were identified in respect of management override of controls via our journals testing, we were provided with retrospective approval for some of the journals as a result of our audit sampling rather than approval being sought prior to them being posted. We concluded that management's estimates and judgements were reasonable and appropriate based upon our audit procedures. No issues were identified in our review of the component auditor's work in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings **Council** The Council revalues its land and buildings (including Council Dwellings) 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.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to management's valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed the basis on which valuations were carried out with the valuer; • tested the key inputs & source data to supporting documentation and challenged the reasonableness of assumptions, including through use of market evidence supplied by our auditor's expert Gerald Eve LLP; • for HRA properties, confirmed the correct valuation methodology and reviewed a sample of "Beacon" properties to supporting market evidence to ensure that they were appropriate; • engaged an auditor's expert to assess the methodology and key assumptions adopted within the valuation; • 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 those valued part way through the year, and how management satisfied themselves that the carrying value of these assets was not materially different to current value at year end. Guidance from RICS in its valuation of land, buildings and investment properties instructed valuers, nationally, to include a material uncertainty paragraph in their valuation reports with regards to the movement of property prices and valuations as a result of Covid-19. Management made disclosures in respect of this material valuation uncertainty in Note 4 of the financial statements. We will refer to this against the relevant Key Audit Matter in our Enhanced Auditor's Report. Further detail of our findings as a result of the challenge of management's estimations can be found on pages 14 to 16. We concluded that management's valuations were reasonable.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Incomplete or inaccurate financial information transferred to the new payroll system **Council** From 1 April 2019 the Council 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: • mapped 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; and • performed sample testing on individual employee benefits transactions to obtain assurance over their accuracy. We obtained reports from the Council's Change Board. On 28 February 2019, the reconciliation totals between Selima and iTrent were reported and the total matches and 1p differences between the two systems were 74.68%. This was the last time that the differences were reported and the system went live 1 April 2019 with no formal reporting of whether or not the final differences were reconciled or resolved. Our review of the outputs from the old payroll system (Selima) to the new system (iTrent) identified some small (trivial) variances that were still unresolved, however we were satisfied over the material accuracy and completeness of the data transfer. Note that this risk related to the new payroll system at Bristol City Council. Maintained schools have the choice to use Bristol City Council as their payroll provider or outsource this to other providers. We did not identify a significant risk in respect of the payroll outsourced to other payroll providers as there were no changes in process related to this expenditure. As such, the significant risk only relates to payroll expenditure processed via Bristol City Council's own payroll system.
Valuation of long term investments **Council** The Council 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 Council'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: • discussed the valuation techniques adopted with management and obtained the calculations for the valuation of the unquoted equity investments and assess these against accounting standards; and • engaged our internal valuations experts to review management's estimates, including those provided by external experts, to provide us with assurance over the valuation of the Council's unquoted equity investments. Following publication of the 2019/20 draft financial statements, management revised its estimate of the valuation of it's investments in Bristol Holding Limited. The Balance Sheet valuation reduced from £11m in the draft financial statement to £5.6m in the final version of the financial statements. The adjustment related to a reduction in the valuation of the Council's investment in Bristol Energy Limited (via Bristol Holding Company Limited) at 31 March 2020 of £6.8m in the draft financial statements to £1.4m in the final version. Further detail of this is included in the Council's post balance sheet events note. We were satisfied that the Council's long term investments were not materially misstated. Further information on our work and findings can be found on pages 18 and 19.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of investment properties **Council** The Council 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 investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	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 the basis on which valuations were carried out with the valuer; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • engaged an auditor's expert to assess the methodology and key assumptions adopted within the valuation; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register. The valuation of investment properties was reported on a material valuation uncertainty basis in accordance with guidance issued to valuers by RICS as a result of Covid-19. This was reported in Note 4 to the financial statements. We will refer to this against the relevant Key Audit Matter in our Enhanced Auditor's Report. Management's valuation experts perform detailed valuations at September 2019 and considered changes in valuation between October 2019 and March 2020 through use of market data. This identified a reduction in value of at £9.5m across the investment property portfolio, however this reduction was not reflected in the draft financial statements. We challenged the approach taken and concluded that it was appropriate and that it produced a reasonable estimate and hence management reduced the value of the Council's investment properties by £9.5m to £252.6m in the final version of the financial statements. We identified a disclosure change to the split of investment property assets in Note 21 which changed the classification of Investment Property categories. More information can be found in Appendix C. Following the adjustments above we concluded that management's valuations were reasonable.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability **Council** 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 evaluated 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 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 PWC (as an auditor's expert, commissioned by the National Audit Office) and performing any additional procedures suggested within the report, such as our additional enquiries made to the actuary in respect of the material experience adjustment; 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 asset valuation in the pension fund financial statements. Following our audit work we were satisfied that the valuation of the pension fund net liability was reasonable. Further detail of our findings as a result of the challenge of management's estimations can be found on pages 14 to 16. The Pension Fund auditor noted that material uncertainty disclosures in respect of the investment properties held by Avon Pension Fund were made within the Pension Fund's financial statements as a result of their valuation experts reporting valuations on this basis. Management reflected this within Note 4 of the financial statements. We will refer to this against the relevant Key Audit Matter in our Enhanced Auditor's Report.

Group audit

Risks identified in our Audit Plan	Auditor commentary
Group risks as reported in our Audit Plan, and associated responses have been included in pages 6 and 7. Along with full audit procedures on the Council's financial statements, we are required to complete specific procedures on transactions and balances within the financial statements of other bodies in the group, where those transactions and balances are material to the group's financial statements.	We: • made contact with the component auditors, PricewaterhouseCoopers LLP, and provided them with group audit instructions confirming the specific audit procedures to be undertaken for Group assurance purposes; • communicated regularly with the component auditors, with the component auditors' audit plans and findings reports for the group entities being shared with the Group audit team; • discussed the change in the preparation basis of Bristol Energy Limited's accounts; • reviewed management's consolidation workings to ensure the correct amounts had been consolidated and that the eliminations were appropriate; and • reviewed the component auditors working papers for all material Group accounts entries, confirming that appropriate procedures had been undertaken. As part of our review of consolidation workings, we identified three amounts that had changed by a value greater than our audit triviality. These items were all changes as a result of the Bristol Energy Limited accounts being prepared on a break-up basis and are summarised in the table below. These were reflected in the updated Group accounts. We did not identify any issues in our review of the component auditor's working papers, or in the communication with component auditors.

Consolidation Adjustments	Primary statement impact
On publishing the audited financial statements of Bristol Energy Limited, the expenditure included in the Income and Expenditure statement was higher than that included in the draft financial statements. Management adjusted for this increase in expenditure.	Increase to Growth & Regeneration Expenditure £4.5m
As a result of the Bristol Energy Limited financial statements being produced on a break-up basis, the company adjusted their draft financial statements to write down the value of its Intangible Assets.	Reduction in the value of Intangible Assets £0.7m
As a result of the Bristol Energy Limited financial statements being produced on a break-up basis, the company adjusted their draft financial statements to write down the value of short term debtors.	Reduction in the value of short term debtors £3.3m
After updating the group financial statements to reflect the final consolidated group position for debtors and creditors, on review of the disclosure notes, it was identified that the categorisation of debtors and creditors was not consistent across the group companies. Management therefore amended these to align classifications. This resulted in a decrease to 'trade payables' of £8.5m and to 'other payables' of £3.6m. 'Receipts in advance' were increased by £12.1m. The net value of creditors did not change and the amendments to debtors were not above our reporting threshold.	None

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/20 financial statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Note 2 of the financial statements includes the following disclosure: "IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short term-leases). CIPFA/LASAAC has deferred implementation of IFRS16 for local government to 1 April 2021. This accounting change may have a significant impact on our accounts however currently there are no reliable estimates to quantify this."	The disclosure in the accounts meets the requirements we would expect in order to comply with the requirement of IAS 8 para 31. As noted in our Audit Plan, the original implementation date for IFRS 16 of 1 April 2020 was deferred due to the Covid-19 pandemic.
Dedicated Schools Grant The Council had a cumulative overspend of £2.9m at 31 March 2020 due to insufficient government funding.	The Council shows the DSG overspend as a negative reserve within it's total school reserves which form part of the total General Fund in the Movement in Reserves Statement and the total Useable Reserves within the Balance Sheet.	We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position." It is our view that the overspend should not be shown as a separate negative reserve, but that the overspend should be offset against the Council's General Fund balance. The overspend is not material, and the net value of the General Fund (incorporating the overspend) is reported in the Council's Balance Sheet. The Movement in Reserves Statement separately shows School Reserves. This is a classification / disclosure point and due to it's value is not a material issue for our audit opinion. We note that the Government has introduced a statutory override which applies to financial statements prepared for the financial years beginning on 1 April 2020, 2021 and 2022 and requires that where a local authority has a deficit on its schools budget, the authority must not charge any such deficit to its revenue account.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £27.5m	The Council are 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.	Management calculate the percentage success rate of appeals based upon the number of appeals. We reviewed the VOA data which highlighted that higher value appeals appeared to have a higher success rate. As such, we recalculated a success percentage based upon the value of successful appeals, rather than the number of successful appeals, which resulted in a difference of £50k.	● Green
Land and Buildings – Council Housing - £1,673.1m **(forms part of the significant risk re Valuation of land and buildings)**	Per Note 1 to the Housing Revenue Account the Council owns 26,833 dwellings. It is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged it's internal valuation team to complete the valuation of these properties. The year end valuation of Council Housing was £1,678.3m, a net increase of £26.3m from 2018/19 (£1,652m).	We considered the competence, qualifications and independence of management's valuation experts and used our own valuation expert to review the relevant terms of reference and valuation report and identified no issues. We confirmed that the information used by the valuer was complete and accurate and that the Beacons used in the valuation process were appropriate and consistent. We also confirmed that the valuation approach was consistent with the prior year and was in accordance with the guidance on stock valuation for resource accounting. We challenged the indices used in the valuation process, with the assistance of our auditors expert, and also corroborated the valuation of Beacons valued in-year to market data and were satisfied with the results. We identified that management's valuer had indicated that Council Dwellings had reduced in value by £13.2m from the date of formal valuation in year and 31 March 2020, however management had only reflected £5.1m of this reduction in the draft financial statements. We reviewed relevant indices and market data appropriate for valuations at 31 March 2020, and due to more up-to-date market evidence being available at the time of audit, concluded that the full reduction was more appropriate to be £6.6m. This left £1.5m unadjusted in the 2019/20 financial statements, which remains unadjusted in the final version of the financial statements on the grounds of its immateriality. This is included in Appendix C as an unadjusted misstatement.	● Green

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 is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £639.1m **(forms part of the significant risk re Valuation of land and buildings)**	Other land and buildings comprises £307.4m 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 (£331.7m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged an external valuer, CBRE, as well as the Council's own independent valuation team to complete the valuation of properties as at 1 October 2019 as part of it's five yearly cyclical valuations programme. 80% of it's total land and building assets were revalued during 2019/20. In line with RICS guidance, the Council's valuation experts disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued in year, via their valuation experts who have applied relevant indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified an increase in other land and buildings values of £5.1m. The total year end valuation of 'Other land and buildings' was £634m, a net increase of £57.6m from 2018/19 (£576.4m).	We considered the competence, qualifications and independence of management's valuation experts and used our own valuation expert to review the relevant terms of reference and valuation reports and identified no issues. We confirmed that the information used by the valuer was complete and accurate. We challenged the assumptions applied to individual valuations and found these to be reasonable. We also challenged the other key inputs and sought to agree these back to base data. Management were unable to provide two scaled floor plans for PFI buildings. The valuer requested these plans from the architects but they were not released on the basis of confidentiality given that the assets were constructed under a Public Finance Initiative (PFI) scheme. The valuer provided high-level plans for both sampled assets, but as they were not scaled we were unable to verify the exact area. Instead we have performed reasonableness checks on these assets that include a consideration of the percentage of the building area to the total land area (which we were able to corroborate) and through use of online area mapping tools, and concluded that the valuations are appropriate. We would recommend that management ensure they have access to all source information relevant to revaluations. This has been included in Appendix A A number of errors were identified with source data of specific sample items, including: - incorrect BCIS rates being used; - variances on floor areas when comparing to plans; or - a combination of the above two points. In addition to this, one asset valuation was based on a bid price at 1 October 2019 that wasn't updated to reflect a movement between this date and 31 March 2020. These errors have been aggregated and extrapolated across the total population. The extrapolated error is a £1.4m understatement of the other land and buildings balance. These are shown as unadjusted in Appendix C.	● Green

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 is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Auditor commentary
Land and Buildings – Other - £639.1m **(forms part of the significant risk re Valuation of land and buildings)**	We have used an external valuation firm as an auditor expert to assess the Council's valuers (both internal and external) and the assumptions that have been used and the findings have been set out in the table below.

Area of review	Our expert's comment	Audit team follow up	Assessment
Clarity of terms of engagement and instructions.	We understand that no formal 'terms of engagement' document has been issued currently from the Valuer.	We raised this with management who issued formal terms of engagement retrospectively. Our auditor expert confirmed that these were appropriate.	Amber
Is there a clear rationale / approach provided to support the valuation methodology adopted for each asset category.	No issues were noted.	N/A	Green
Areas for follow up	1. We are not aware of how many beacon groups have been used to value the stock however the guidance outlines that beacon properties are expected to cover on average 50-600 properties (HRA valuations). 2. It may be worth following up on the approach adopted to ensure that this is in line with the 'Key Stage' guidance as outlined within the relevant DCLG guidance for stock valuations for accounting purposes (HRA valuations). 3. It may be prudent to gain additional understanding of the process adopted by the Valuer in arriving at their valuation conclusions including valuation inputs for both the building and land elements (General Fund Specialised Assets). 4. It may be prudent to gain additional understanding of the process adopted by the Valuer in arriving at their valuation conclusions including valuation inputs such as estimated rental values and associated comparable evidence, lease schedules and yield comparable data (General Fund Non-Specialised Assets).	The audit team followed up all of these issues as part of our testing strategy and no issues were noted.	Green

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £993.9m **(forms part of the significant risk re Valuation of pension fund net liability)**	The Council's net defined benefit pension liability at 31 March 2020 is £993.9m (PY £977.6m), comprising the Avon Pension Fund Local Government net defined benefit liability and unfunded defined benefit pension scheme obligations for the Local Government and Teachers Pension schemes. The Council uses 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 as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £45.7m net actuarial gain during 2019/20.	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 management's actuary, 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

Assumptions - LGPS	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3 – 2.4%	Green
Pension increase rate	2.1%	2.1 – 2.2%	Green
Salary growth	3.6%	3.35 – 3.6%	Green
Life expectancy – Males currently aged 45 / 65	24.7 / 23.2	22.5 – 24.7 20.9 – 23.2 /	Green
Life expectancy – Females currently aged 45 / 65	27.3 / 25.3	25.9 – 27.7 / 24.0 – 25.8	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.

The actuary used estimated returns on investment as part of their work. The actual return was 0.1% different to this estimate. This would equate to an increase in the liability of £1.7m.

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 Pension Fund auditor noted that the valuation of the Pension Fund's investment property portfolio was reported on a material valuation uncertainty basis. Management included this information in a disclosure in Note 4 in the final statement of accounts.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Unquoted equity investments - £32.6m **(forms part of the significant risk re Valuation of long term investments)**	The Council has an investment in First Corporate Shipping Limited (trading as The Bristol Port Company) that is valued on the Balance Sheet as at 31 March 2020 at £27m. The Council also has an investment in Bristol Holdings Limited that was valued on the Balance Sheet as at 31 March 2020 at £11m in the draft accounts. This was subsequently revised to £5.6m in the final version of the financial statements. The investments are not traded on an open exchange/market and the valuation of the investments is subjective. For the investment in First Corporate Shipping Limited the Council engaged a valuation expert, Valuation Consulting. The value of the investment has increased by £2m in 2019/20 as a result of this valuation. The Council adopt a range of valuation techniques for its investment in Bristol Holdings Limited which include a valuation based upon the net assets of Bristol Waste Company Limited and a valuation of Bristol Energy Limited based upon the number of meter points and a price per customer adjusted for various other elements such as liabilities. The valuation of the Council's investment in Bristol Holdings Limited has reduced by £6.3m in 2019/20.	**First Corporate Shipping Limited** Our internal valuations colleagues evaluated the competence, capabilities and objectivity of management's expert and did not identify any issues. They considered the underlying data and methods adopted by management's expert and were satisfied that the valuation provided was not unreasonable. We sensitised the key assumptions used in the valuation to ensure that they were appropriate and reasonably expected changes in assumptions would not lead to material adjustments in the estimated value. Our valuations colleagues suggested a slightly different range for the discount rate assumption, which at the highest would have led to a valuation being £1m lower than that reported in the Balance Sheet. We are satisfied that this estimation difference is not significant and gained sufficient assurance over the valuation of the holding in the Balance Sheet. **Bristol Holdings Limited** We reviewed the audited accounts of Bristol Waste Company Limited and were satisfied that the net assets of the company were appropriately included within the calculation of the unquoted equity investment for inclusion in the Balance Sheet. Our internal valuations colleagues considered the methodology and assumptions applied in the valuation of Bristol Energy Limited, which management derive from the number of customer meter points at 31 March 2020 with an allocation of a price per customer used to calculate the fair value of the investment. The draft financial statements were updated to revise the Bristol Energy Limited element of the valuation downwards from £6.8m in the draft financial statements to £1.4m in the final financial statements. The reduction was as a result of the events after the Balance Sheet date that provided additional information that was relevant to the valuation of Bristol Energy Limited at the Balance Sheet date. Management set out details of these events in their Post Balance Sheet Event note. ***Continued***	● **Amber**

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 – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Unquoted equity investments - £32.6m ***Continued***	*Continued*	We discussed the revised valuation with management and our own valuation experts. The reduction in valuation was processed as a result of the decision post year end to seek a buyer for Bristol Energy Limited and, due to this, the fact that Bristol Energy Limited was no longer considered a going concern. Our valuation colleagues considered the revised valuation of £1.4m and the methodology adopted to derive this valuation, and they concluded that the methodology appeared to be appropriate for the industry and the inputs appeared reasonable. In their view, £1.4m was not an unreasonable valuation, although this was likely to be the highest that the Council's investment could be seen to be worth, with the bottom end of the range being £0. As such, we were satisfied that there was not a material valuation range or a material valuation uncertainty in respect of the Council's valuation of Bristol Energy Limited. We considered management's post balance sheet events disclosure and concluded that this met the requirements of the relevant accounting standard. Whilst the Council funding the historical impairments to it's investment in Bristol Energy Limited via earmarked reserves, there is an opportunity cost to this given that the reserves could have been utilised to support other Council priorities had they not been required for this purpose.	Amber

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 – 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	Auditor commentary
Management's assessment process The Council has a detailed Medium Term Financial Plan that runs to 2023/24 which identifies balanced revenue budgets to the end of 2021/22, 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 as part of our Value for Money work did not identify any significant issues. The Council considered the impact of Covid-19 on it's finances. Early in the financial year the Council modelled a number of potential scenarios on it's finances based on varying assumptions of longevity and severity. This modelling assessed the potential impact on the income, expenditure and cashflows of the Council and the resultant impact on it's financial position and reserves and it continues to update these forecasts. The Council also assessed the impact of Covid-19 on the group. It concluded that no material uncertainties arose. 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, Bristol Energy Limited's single entity financial statements were produced on a break-up basis as it was concluded that the company was no longer a Going Concern. Management considered the impact of this on the wider Group and concluded that the Group remained a Going Concern due to the insignificance of Bristol Energy Limited on the total group. Further detail on the financial implications to the Council and Group was disclosed in Note 5.	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 given the significance of the Council to the overall Group. We were satisfied that the Council and group were a going concern and that Covid-19 did not create any material uncertainties. We were satisfied that the impact of Bristol Energy Limited's single entity financial statements being reported on a break up basis did not impact on the Group's ability to continue as a Going Concern. We were also satisfied that management had appropriately reflected the Parent Company Guarantees issued in respect of Bristol Energy Limited appropriately within it's single entity Balance Sheet and that no material uncertainties arose as a result. We intend to issue an unmodified opinion in respect of Going Concern,

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and we have not been made aware of any 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.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and all organisations that the Council hold investments and/or borrowings with. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however 2 requests were not received so we undertook alternative procedures, including reviewing the original contract documentation, reviewing any correspondence subsequent to year end and also reviewing any transactions occurring post year end back to bank statements, such as the maturity of investments.
Disclosures	Identified disclosure issues and omissions are reported in Appendix C.
Audit evidence and explanations/significant difficulties	Covid-19 impacted on the production of draft financial statements and the pace at which the audit could be conducted. In the previous year we reported a number of areas where the audit took much longer than we would normally expect it to. As the second year of audit, there were some inherent efficiencies, however there were several areas where working papers were not clear, where sample evidence or responses to audit queries were not "right first time", where we were provided with out of date working papers or where queries took a significant amount of time to be responded to or resolved. Some examples are set out below. Our work on the Council's property, plant and equipment took significantly longer than we would normally expect due to the number of working papers involved, the complexity of some of these, the speed of response to some audit queries and also the number of manual adjustments to fixed asset register entries posted as part of the close down process. We made a recommendation in respect of these issues in the prior year (see Appendix B) and consider that there are still issues to address in future years. We will continue to pursue improvements in this area in future, which will in turn reduce the time and cost of the audit. The Council's financial accounting system, due to the way that entries are posted to it, meant that the Council could not provide us with a year end listing of it's debtors and creditors to allow us to sample from. As such, there were a number of iterations of the debtors and creditors samples, which still remain ongoing, as a significant number of our samples had been paid or received prior to year end and therefore were not valid debtors or creditors. This results in significant additional time input for ourselves and management. We have made a recommendation in respect of this in Appendix A.

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. 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/or • if we have applied any of our statutory powers or duties There are areas where specific reference could be made in the Annual Governance Statement in respect of the key elements of governance per "Delivering Good Governance in Local Government: Framework (2016)". We have raised a best practice recommendation in Appendix A.
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. Our work will commence once the audit of the Council's financial statements has been concluded.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Bristol City Council in the audit report until our work on the Council's WGA consolidation pack is finalised and we have concluded our consideration of an objection to the accounts received from a local elector.

Value for Money

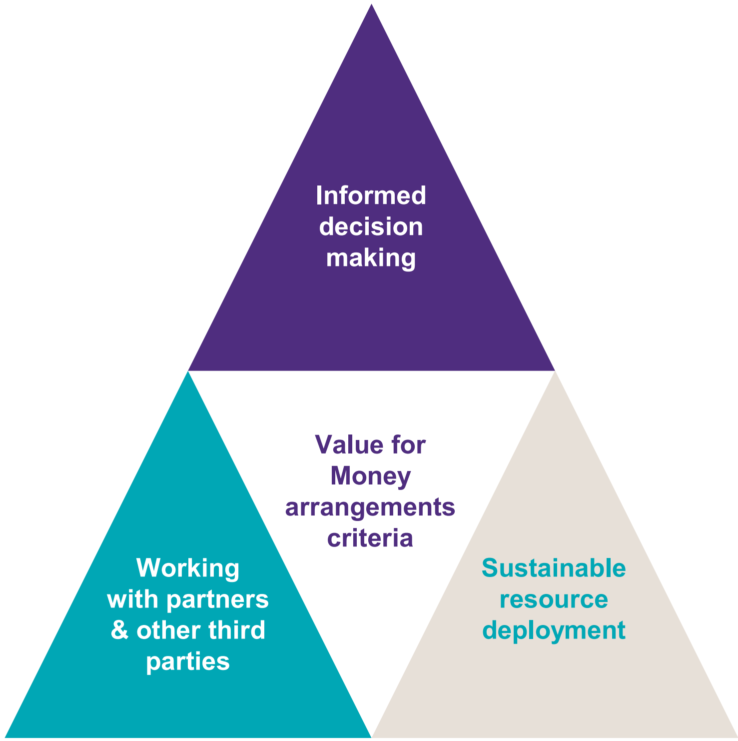
Background to our VFM approach

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 April 2020. 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 in May 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03 relating to governance arrangements for the Council's subsidiaries and financial sustainability. We communicated these risks to you in our Audit Plan dated June 2020.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan. We have continued our review of relevant documents up to the date of giving our report, and identified a further significant risk in relation to the joint local area SEND inspection.

We will continue to consider any new information which might emerge up until the point at which we issue our audit report.

We have not identified any new VfM risks in relation to Covid-19, as we do not consider Covid-19 to be a significant risk given the date of the pandemic, although we have considered its risk in regard to the Council's ability to deliver financial sustainability.

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

We reported the findings from our detailed work on the Council's Value for Money arrangements to the January 2021 Audit Committee via two documents, 'Review of Governance Arrangements for Bristol City Council's Subsidiaries' and 'Value for Money Audit Findings for Bristol City Council – section to be incorporated into final Audit Findings Report'.

At the time of forming our Value for Money conclusion we confirm no changes to the matters set out in these initial findings reports and that our reported conclusion will be as set out in these reports. We are therefore satisfied that the findings reported to you previously via these reports continue to remain appropriate.

Overall conclusion

Based on the work we performed to address the significant risks, except for the matter we identified in respect of governance arrangements in relation to Bristol Energy Limited, we concluded that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

Recommendations for improvement

We discussed findings arising from our work with management and agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the action plans in our reports presented to the Audit Committee in January 2021. The report entitled 'Review of Governance Arrangements for Bristol City Council's Subsidiaries' was discussed separately at the Extraordinary Full Council meeting 11 February 2021.

Other statutory powers

We continue to consider any potential next steps under our other statutory powers which included Statutory Recommendations and Public Interest Reporting following our work on the governance arrangements in relation to Bristol Energy Limited.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

- we draw your attention to the fact that an ex-Grant Thornton employee currently occupies a senior position within the group, although we consider this fact has had no bearing on our audit judgement or independence;
- we confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard;
- we have received confirmation that PricewaterhouseCoopers LLP, the auditor of the Council's subsidiaries, are independent; and
- we have received confirmation that Wilks, Head & Eve LLP, our auditor's expert in respect of land and building valuations, 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and 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 audit-related services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures on the Council's Housing Benefit Subsidy Claim 2019-20	28,000	Self-Interest (because this is a recurring fee)	The level of these recurring fees taken individually or collectively are not considered a significant threat to independence as the cumulative proposed fee for this work is £41,000 in comparison to the total proposed fee for the audit at our planning stage of £211,189, and in particular are not significant relative to Grant Thornton UK LLP's turnover overall. Further, there are no contingent elements with fee increases set out in the contracted pricing based upon the level of errors identified and agreed. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon procedures on the Council's Teacher's Pension Return 2019-20	8,000		
Agreed upon procedures on the Council's Pooling of Housing Capital Receipts return 2019-20	5,000	Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is planned to be completed after the audit has been completed. Materiality of the amounts involved are not significant to our audit opinion and we assess the likelihood of material errors arising as being sufficiently remote based upon previous experience. The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. These factors all mitigate the perceived self-review threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of audit-related work to your auditors.

No non-audit services were identified which were charged from the beginning of the financial year to the current date.

Action plan

We have identified five 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 2020/21 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
Medium	Our review of useful lives of Vehicles, Plant & Equipment assets identified that assets with a gross book value of £6.9m were fully depreciated at the year end, and had been fully depreciated throughout 2019/20. The risk associated is that the assets are not being depreciated over an appropriate useful life and that the council's depreciation charge is therefore not at the correct value.	The Council undertakes a detailed review of its assets to identify any fully depreciated assets and consider whether the useful lives used were appropriate in order to inform the Council's depreciation of future assets. **Management response** The £6.9m assets fully depreciated related to fleet vehicles. The replacement of these vehicles was delayed due to pause in the project to ensure all new vehicles met the Council's climate emergency pledge and ambitions and therefore current fleet used beyond the assumed asset life. The replacement is still in progress with delays in delivery of some vehicles delayed until Summer 2021. We will review all assets which are fully depreciated but still in use to ascertain whether to extend useful life accordingly. We use information regarding assets disposed of to contribute to the evidence considered when deciding on asset life of future and replacement assets.
Medium	Due to the way that the Council operates it's financial ledger it is not possible to produce a detailed listing of entries that make up the year end debtor and creditor figures. This has resulted in significant additional audit team and management resource during the previous two years' audits, and there is a risk that management are not able to identify potential issues with specific debtor or creditor balances if a listing cannot be provided.	The Council undertakes a detailed review of its financial ledger coding to ensure that year-end transactional listings can be produced for year end balances such as debtors and creditors. **Management response** This has now been implemented. The Council has now developed a systems-based approach to ensure the structure of balance sheet coding will clearly identify in-year transactions and balances, including those for debtors and creditors.
Medium	Our testing of land and building valuations identified instances when supporting information (such as scaled floor areas) could not be provided and other instances of incorrect assumptions being applied, such as incorrect floor areas or BCIS rates. There is a risk that the valuations of land and buildings reflected in the financial statements are incorrect as a result of these incorrect assumptions or datasets.	Management should ensure that valuations are based upon the appropriate supporting data and that this data can be appropriately evidenced and corroborated. **Management response** The number of valuations that applied incorrect assumptions, build data and floor areas related to less than 10 properties out of estate of approximately 700 properties. Where floor plans are not available to confirm floor areas we are requesting that new floor plans are commissioned. Going forwards the Council will continue to verify input factors such as build costs and ensure all relevant data is available.

Action plan

Assessment	Issue and risk	Recommendations
Low	The Council has treated their loan to Goram Homes Limited as a Long Term Debtor, held at Amortised Cost. We considered this against accounting standards and CIPFA guidance and are satisfied that this treatment is appropriate at 31 March 2020.	IFRS 9 requires entities to assess classification on an annual basis, with one indication of a reclassification trigger being the payee's intention or ability to repay the loan. We recommend that management monitors Goram Homes Limited's performance against it's business plan, and uses this as a basis to assess the classification of the loan on an annual basis. **Management response** The performance of Goram Homes to business plan is monitored regularly by the Goram Homes and Bristol Holding Company Boards and the Council's Shareholder Group. The risk of unplanned investment in subsidiary companies is monitored in the Councils Corporate Risk Register and reported quarterly to Cabinet and Audit Committee. The Council's service investments are reported monthly to the Capital Investment Board, including actual investments, repayments, any known risks associated with future repayments and current accounting treatment. The outcome from the various activities outlined above and any necessary change in accounting treatment, will inform the annual assessment.
Low	The Annual Governance Statement currently states in para 1.4 that it "provides an overview of how the Council's governance arrangements have operated during 2019/20 and up to the date it is signed." It could be made clearer that this means the date the final financial statements are approved, and this document should be re-signed alongside approval of the final statement of accounts. There are also areas where specific reference could be made in respect of the key elements of governance per "Delivering Good Governance in Local Government: Framework (2016)".	Management should ensure that the Annual Governance Statement is updated and signed to the date of the final version of the Statement of Accounts. The 2020/21 Annual Governance Statement should make specific reference to all of the key elements of governance per "Delivering Good Governance in Local Government: Framework (2016)". **Management response** Confirmation that the AGS 2019/20 has been endorsed by all the signatories at the date of the final version of the Statement of Accounts will be addended to the AGS. Specific reference and consideration will be given in AGS 2020/21 in relation to "Delivering Good Governance in Local Government: Framework (2016)" and a sign-off process that enables recommendations and actions to be implemented in a timely manner.

Controls

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

Follow up of prior year recommendations

We raised the following issues and recommendations in the audit of Bristol City Council's 2018/19 financial statements and set out below progress against the recommendations included within the 2018/19 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Management should consider the current journals authorisation policy and consider implementing compensation controls in respect of spreadsheet journals.	Management have implemented a new journals policy as a result of this recommendation that will require spreadsheet journals to be authorised by a second user. Due to the timing of our recommendation this was not in place for the full 2019/20 audit year and so the original risk remained relevant for part of the year under audit. Our testing of journals confirmed that the new policy had not been operational for the whole of 2019/20, as for a number of sample items, we were not able to obtain evidence that the journal was approved at the time of posting. Retrospective approval was provided which was obtained as a result of our audit sample requests.
✓	Management should consider engaging their own valuation experts to value their complex investments.	Management engaged external valuation experts to undertake the valuations of their unquoted equity investment in First Corporate Shipping Limited (trading as The Bristol Port Company) at 31 March 2020.
x	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.	The Council's fixed asset register continues to comprise of multiple documents which makes reconciling the amounts to the statement of accounts difficult and very time-consuming. The fixed asset register should be the prime source of data, and with some elements held in separate spreadsheets there is also a risk that capital entries are missed or incorrectly calculated. Manual capital additions should be included on the asset register and the register should be amended annually for any all to assets. Another example is £7m of waste asset disposals that were included as a manual disposal in year in separate workings. On testing disposals, we requested a listing of these assets to include in our sampling, but as these relate to historic assets at £nil value in the asset register, we are unable to obtain a listing. Management should ensure that the asset register remains up to date.
x	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.	We experienced issues with obtaining evidence to support management's estimate of HRA depreciation again in 2019/20. An audit trail was not maintained of the costs used to formulate the Council's HRA depreciation for 2019/20, and therefore when supporting evidence was provided this was for subsequent financial years. Due to the costs changing between years, which would be expected, an extrapolation of our sample over the entire population suggested a potential overstatement of £3.1m. As an extrapolated difference, we would not expect the financial statements to be adjusted, and our testing provided us with sufficient assurance that the HRA depreciation estimate for 2019/20 was reasonable and not materially misstated. Moving forwards the Council should maintain an appropriate audit trail.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	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.	Our testing in 2019/20 has identified that this issue still remains, with evidence of approval not available for most reserve transfers sampled. Given the timing of our prior year recommendation, this is to be expected given it was made toward the end of the financial year.
✓	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.	2019/20 year end bank reconciliations provided for audit were based on the closing ledger balance and closing bank balance as we would expect.
✓	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.	Our testing confirmed that all property and land assets were valued in accordance with the timing requirements of the CIPFA Code.
x	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.	We experienced issues with working papers again in 2019/20 as previously reported, and experienced instances of the wrong or outdated working papers being provided to us initially.
x	We recommend that management ensure all heritage asset values are included in the next insurance valuation undertaken.	The Council insured the repairable sums (indemnity amount) again in 2019/20, with no additional insurance cover taken out.

Assessment

✓ Action completed

X Not yet addressed

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 2020.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
As previously reported, following receipt of the draft financial statements to audit management revised the valuation of the unquoted equity investment in Bristol Holdings Limited from £11m to £5.6m. This reduction reflected an adjustment downwards in the respect of the Bristol Energy Limited element of the total estimated investment value. This increased the in-year impairment of the Council's investment in Bristol Holding Limited in 2019/20 from £14m to £19.4m.	Dr Financing and Investment Income and Expenditure £5.4m	Cr Long-term investments £5.4m
Management's valuer undertakes a review of property price movements from the date of valuation in year to the Balance Sheet date of 31 March 2020. Management's valuer identified a decrease of £9.5m in Investment Property prices between the date of valuation and 31 March 2020, however this adjustment was not reflected in the draft financial statements. We were satisfied that the adjustment was appropriate and management processed this adjustment in the final version of the financial statements.	Cr Investment properties £9.5m	Dr Financing and Investment Income and Expenditure £9.5m
The Council received a 'Covid-19 LA Support Grant' in 2019/20 of £13.5m and had treated this as a grant received in advance in the draft financial statements. Our review and understanding of the grant conditions was that there were no conditions related to the receipt or use of this grant, and therefore as a result the grant should have been immediately recognised as income. This was updated in the final version of the financial statements.	Cr Taxation and non-specific grant income £13.5m	Dr Short Term Creditors £13.5m

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
The Council has Parent Company Guarantees (PCGs) in place with energy suppliers in order to allow Bristol Energy Limited to trade and gain access to energy and credit lines. In our 2018/19 audit we undertook significant work alongside management and concluded that these arrangements formed derivative financial liabilities that should be recognised on the Council's Balance Sheet. The Council assessed the likelihood of the PCGs being called at 31 March 2020 and estimated the derivative financial liability at this date to be £5.4m. The Council classified this as a provision, however our view was that it did not meet the accounting definition of a provision and should be reclassified as a separate standalone item on the Council's Balance Sheet. The Council reclassified the full £5.4m from 'Provisions' to 'Derivative Financial Instruments' on the Balance Sheet and the relates notes.	✓
Note 4 (Assumptions made about the Future and other Major Sources of Estimation Uncertainty) was updated to clearly disclose the material valuation uncertainty in respect of land and buildings, Council Dwellings, investment properties and investment properties held on the Council's behalf by Avon Pension Fund. Council Dwellings and investment property disclosures were not included in the original draft financial statements.	✓
Various disclosure amendments were made to Note 11 - Pooled Budgets, including the re-allocation of funding between the CCG and the Council (funds 3 and 5) to match the Section 75 agreements in place and to adjust disclosed figures to reflect actuals.	✓
The salary banding disclosure in Note 13 (Officers' Remuneration and Exit Packages) included two additional non-schools employees when compared to the supporting working paper. Management identified this error when providing the working papers and explained this was caused by two individuals being moved up to the senior officer disclosure and that in error, the individuals were not removed from the banding disclosure.	✓
The split of types of Investment Property in Note 21 was incorrect as two different data sets were held by the Council's valuer and the finance team. The finance team's information was incorrect and therefore the disclosure was updated as follows: Retail – from £119.7m to £74.8m Industrial – from £85.6m to £122.1m Office – from £56.8m to £65.2m	✓
The reported Balance Sheet net debtor reported per Note 23 did not agree to the value in the Balance Sheet or Note 28. The figure in Note 23 was updated to £106.3m to ensure that they were consistent.	✓
Management use LINK Asset Services to provide them with fair value calculations of their assets and liabilities which are required for financial instrument disclosures in Note 23. Management also calculate their own Fair Values and use the work of LINK to assess these for reasonableness. LINK's fair valuation of the Council's Public Works Loans Board (PWLB) and Lender Option Borrower Option (LOBO) loans were £0.6m and £0.7m different respectively, a total difference of £1,340k. Management used their own values rather than LINK's as they were not materially different.	x
The following disclosure adjustments were made to Note 33 (Pensions) to ensure that they were consistent with the actuary's report: - Teachers pensions figures for CPI, discount rate and increase in pensions had been transposed and were updated; and - The duration of liabilities of 16 years was added to the disclosure note.	✓

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
There was a typographical error in Note 37 – Related Parties in respect of Bristol LEP Limited. Transactions were originally reported totalling £71.2m, this was subsequently updated to £7.2m. The Related Parties note was also updated to include a disclosure in respect of the Bristol Food Network as we deemed that they met the criteria of a Related Party under accounting standards.	✓
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 2019/20 audit which have not been made within the final set of financial statements. Management have decided to not adjust for these items within the 2019/20 financial statements on the basis of their immateriality both individually and collectively. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
The actuary uses an estimated rate of return to calculate the net defined benefit liability at 31 March 2020. This estimated rate of return was 0.1% higher than the actual full year rate of return. This created an overstatement of the actual return on scheme assets of £1.7m.	Dr Financing and Investment Income and Expenditure £1.7m	Cr Other Long-Term Liabilities £1.7m
The Council has a carried forward deficit of £2.9m on it's Dedicated Schools Grant and has accounted for this as a negative earmarked schools reserve. In our view the deficit should be carried forward as a call against the schools budget in future years, and hence we consider that these should form part of the Council's un-earmarked general fund. This does not impact upon the Balance Sheet (as this reports Useable Reserves on a total basis) but would impact on the MiRS disclosure and Note 18 (Useable Reserves). We note that the Government has introduced a statutory override which applies to financial statements prepared for the financial years beginning on 1 April 2020, 2021 and 2022 and requires that where a local authority has a deficit on its schools budget, the authority must not charge any such deficit to its revenue account.	N/A	N/A
During our review of the cash flow statement we identified £2.1m included within "Other non cash items charged to the net surplus or deficit on the provision of services" in the Cash Flow Statement that management were unable to provide evidence or explanation for. This is effectively a balancing figure to ensure that the Cash Flow Statement balances to the movement in Cash and Cash Equivalents in the Balance Sheet. This also impacted the Group Cash Flow Statement along with an additional item in the Group which gave a total balancing figure of £2.8m in the Group.	N/A	N/A
We identified that management's valuer had indicated that Council Dwellings had reduced in value by £13.2m from the date of formal valuation in year and 31 March 2020, however management had only reflected £5.1m of this reduction in the draft financial statements. We reviewed relevant indices and market data appropriate for valuations at 31 March 2020, and due to more up-to-date market evidence being available at the time of audit, concluded that the full reduction was more appropriate to be £6.6m. This left £1.5m unadjusted in the 2019/20 financial statements, which remains unadjusted in the final version of the financial statements.	Dr Housing Revenue Account expenditure £1.5m	Cr Property, plant and equipment £1.5m
When reconciling the ledger to the Council's housing benefit system Northgate it was noted that the income and expenditure figures were under and overstated respectively as follows: Income understated by £1.6m Expenditure overstated by £1.6m There is no impact on the net expenditure recorded in the Council's Comprehensive Income and Expenditure Statement.	N/A	N/A

Audit adjustments

Estimation uncertainties

The table below provides details of potential estimation differences identified during the 2019/20 audit. Management have not changed their estimates and the Audit Committee is required to consider management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
Our valuations team reviewed the valuation of the unquoted equity investment in First Corporate Shipping Limited (also known as the Bristol Port Company) and suggested a slightly different range of discount rate was, in their view, more appropriate than the one used by management's expert. We reperformed the valuation calculation using this amended discount rate, which gave a maximum difference of £1m lower than the £27m included in the Balance Sheet. We were satisfied that the estimate was materially accurate.	Dr Financing and Investment Income and Expenditure £1m	Cr Long-term investments £1m

Other issues and errors

The table below provides details of other issues identified during the 2019/20 audit.

Detail
Our testing of schools payroll transactions identified an error of £235 in a sample of £2.5m. Extrapolated across the whole population of £88.7m gives a potential variance of £4.2m. As an extrapolated error, we would not expect management to update the financial statements and we obtained sufficient assurance over the full balance from our testing.
A land asset with a value of £1.8m was held in Assets Under Construction at the start of the financial year. This asset was last revalued 1 December 2017. In the 2019/20 financial year, the land was transferred out of Assets Under Construction into Other Land & Buildings. The asset was not revalued on reclassification which is what we would expect under the requirements of accounting standards and the CIPFA Code. This remained unadjusted in the final version of the financial statements.
As part of our land & buildings valuations testing a number of errors were identified in respect of floor areas or build cost data being incorrectly applied. In addition to this, one asset valuation was based on a bid price at 01/10/2019 that wasn't updated for a movement between valuation date and reporting date. Whilst these errors were trivial individually, we have considered their cumulative effect once aggregated and extrapolated across the total population. The extrapolated error is a £1.4m projected understatement of the Property, plant and equipment balance. As an extrapolated error, we would not expect management to update the financial statements and we obtained sufficient assurance over the full balance from our testing.
As part of our surplus asset valuation testing, one calculation did not tie back to the stated methodology. The calculation states that there were 4 plots but the methodology only details 2. The calculation is incorrect and this has already been identified by the Council as part of their 2020/21 valuation work. The error for this asset individually is £0.2m and hence trivial, however when extrapolated across other assets of this type the projected error is a £0.8m overstatement of Property, plant and equipment. As an extrapolated error, we would not expect management to update the financial statements and we obtained sufficient assurance over the full balance from our testing.

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Consideration for 2019/20
Council Dwellings depreciation	Cr Net cost of services £0.9m	Dr Property, plant and equipment £0.9m	Depreciation is an accounting estimate, and as such any errors in year will be corrected in future periods through the correcting of errors in calculations. We have reviewed the current year depreciation charge to ensure that it is appropriately stated.
Guaranteed Minimum Pension	Dr Net cost of services £5.4m	Cr Other long-term liabilities £5.4m	GMP is included in the actuary's liability calculation for 2020/21.
Parent Company Guarantees	Dr Deficit on provision of services £0.9m	Cr Current liabilities £0.9m	The guarantees have been assessed and included in the Balance Sheet at 31 March 2020.
NDR provision	Dr Net cost of services £3m	Cr Provisions £3m	This is an annual calculation, which is re-visited each year. With the updating of the calculation in 2019/20, no issues were noted.
PPE and investment property	Dr Other comprehensive income and expenditure £4.6m Dr Financing and investment income and expenditure £2.5m	Dr Property, plant and equipment £4.6m Cr Investment properties £2.5m	Due to the nature of the revaluations (annual revaluation of specific assets, and full portfolio indices review) any errors from the prior period that were unadjusted would be corrected through the valuation work undertaken in 2019-20.
Debtors	Cr Net cost of services £1m	Dr Debtors £1m	This was corrected in 2019/20 with the opening debtor credited when the income was received, and the additional amount credited to revenue to match the cash receipt.
Creditors	Cr Net cost of services £0.8m	Cr Creditors £0.8m	This was an extrapolated error, and therefore was not an amount we would expect to have been amended as it was a projected misstatement.

Fees

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

Audit fees	Proposed fee	Final fee
Council audit scale fee	£156,839	156,839
Additional audit fee	£54,350	TBC
Total audit fees (excluding VAT)	**£211,189**	**TBC**

The above fees reconcile to the financial statements. We will confirm our final fee via the Annual Audit Letter following completion of the 2019/20 audit.

Non-audit fees for other services	Final fee
Agreed upon procedures on the Council's Housing Benefit Subsidy Claim 2019/20	28,000*
Agreed upon procedures on the Council's Teacher's Pension Return 2019/20	8,000
Agreed upon procedures on the Council's Pooling of Housing Capital Receipts return 2019/20	5,000
Total non- audit fees (excluding VAT)	**£41,000**

*£19,000 is included in Note 21 of the financial statements. The £9,000 difference relates to additional work undertaken and billed due to errors identified during testing.