The Annual Audit Letter for Bristol City Council

Year ended 31 March 2020

13 May 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Bristol City Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 22 March 2021. We reported our detailed Value for Money findings to Audit Committee 25 January 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £14,300,000, which is 1.14**%** of the group's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 4 May 2021.
Whole of Government Accounts (WGA)	We have yet to complete work on the Council's consolidation return following guidance issued by the NAO. We will look to conclude this work by July 2021.
Use of statutory powers	We received an objection from a local elector to the group's financial statements and have yet to conclude work on this matter. We did not consider that it would impact upon our financial statements opinion. We are also 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.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for in respect of the governance arrangements related to the Council's subsidiaries, and in particular Bristol Energy Limited. We therefore qualified our value for money conclusion in our audit report to the group on 5 May 2021.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Bristol City Council until we resolve the outstanding objection from a local elector and also complete our work in respect of the Council's Whole of Government Accounts consolidation return.

Executive Summary

Working with the Council

The 2019/20 audit of the Group's financial statements was undertaken remotely due to the impact of the Covid-19 pandemic on our lives. We worked with management, utilising regular video calls to ensure that we could keep up to date with audit progress and any issues. We also attended Audit Committees virtually.

Bristol City Council is a large and complex organisation. Delivering work to the quality standard required takes time, and as such we had planned that the delivery of the audit would not be complete by the November 2020 extended audit timetable. Whilst our regular liaison ensured that the audit continued to progress, we encountered some specific challenges with working papers, especially in respect of Property, Plant and Equipment and Debtors and Creditors. This extended the time it took us to complete our audit work further, and we raised specific recommendations relating to the working papers in these areas in our Audit Findings Report taken to the March 2021 Audit Committee meeting.

In addition to the challenges faced with some working papers, changes to the business environment and the decision to sell Bristol Energy Limited also resulted in additional audit work and disclosures in the financial statements, as well as further disclosures on the Bristol Beacon capital project.

The 2019/20 audit opinion was issued 5 May 2021, earlier than the 2018/19 financial statements audit opinion which was signed 31 July 2020. We will continue to work with the Council to bring forward the date of audit opinion where possible, including discussing how improvements in working papers could make this achievable.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
May 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £14,300,000, which is 1.14% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £13,200,000, which is 1.16% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We set a lower threshold of £660,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 (Group risk) The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would 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 could impact on the quality and timing of the production of the financial statements, and the evidence we could obtain through physical observation; • volatility of financial and property markets would increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we could obtain to corroborate management estimates; • financial uncertainty would 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 had arisen; and • disclosures within the financial statements could 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 response to the Covid-19 pandemic had on the group's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. We received draft financial statements shortly in advance of the revised national timetable; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. An example is in respect of the material valuation uncertainty disclosed by the Council's valuation experts in respect of land and buildings and investment properties; • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; • 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.	The Covid-19 pandemic resulted in land and building and investment property valuations being reported on a 'material uncertainty' basis. This was a national issue related to the uncertainty that Covid-19 brought to financial markets and the Council followed national guidance from the Royal Institute of Chartered Surveyors (RICS) in it's valuations. This was also the case for investment property held by Avon Pension Fund on behalf of Bristol City Council and the statement of accounts were updated to reflect this. We reviewed management's other estimates and judgements in light of the Covid-19 pandemic and concluded that these were reasonable. The audit was completed remotely which resulted in certain challenges and work taking significantly longer than we would have expected in normal conditions.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls (Group 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 reported that 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 again in 2019/20 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.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (Council risk) 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 Council Dwellings, 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 referred to this against the relevant Key Audit Matter in our Enhanced Auditor's Report. We concluded that management's valuations in the final version of the financial statements were reasonable and identified no material issues.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of investment properties (Council risk) 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. Following this adjustment we concluded that management's valuations were reasonable.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability (Council risk) 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.	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. Following our audit work we were satisfied that the valuation of the pension fund net liability was reasonable.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of long term investments (Council risk) 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 the estimate of the valuation of the 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 was included in the Council's post balance sheet events note. We were satisfied that the Council's long term investments were not materially misstated.
Incomplete or inaccurate financial information transferred to the new payroll system (Council risk) 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.	Our review of the outputs from the old payroll system to the new system identified some minor variances that were still unresolved, however we were satisfied over the material accuracy and completeness of the data transfer.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 5 May 2021.

Preparation of the financial statements

The Council presented us with draft financial statements in August 2020 in accordance with the updated accounts and audit timetable for the 2019/20 financial year. We set out on page 4 some of the challenges faced in the delivery of the 2019/20 audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 22 March 2021. This report included the recommendations arising as a result of our financial statements audit work.

Annual Governance Statement and Narrative Report

We are also required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council. The Council included an Addendum in the final Annual Governance Statement to reflect events that had occurred up to the date of the financial statements and audit report.

Whole of Government Accounts (WGA)

We have yet to complete our work in respect of the Council’s Whole of Government Accounts return following the conclusion of our audit. As such we have yet to issue our audit certificate.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Bristol City Council until we finalise our work on the Council’s Whole of Government Accounts consolidation return and in respect of an objection raised by a local elector.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our reports on Value for Money presented to the Audit Committee in January 2021 we agreed recommendations to address our findings. These have been included in Appendix B.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified overleaf, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Governance arrangements for the Council's subsidiaries The Council made changes to the governance arrangements in place over it's subsidiary companies in 2019/20. Our review focused on the events and arrangements in place during 2019/20 and did not consider the decision to establish Bristol Energy Limited (BE) in 2015 or the decision to sell the company in 2020/21. Our focus was been on arrangements within the Council and not within the separate legal entities, only in so much as they provide assurance to the Council and impact on the overall governance arrangements.	Based upon our review of the governance arrangements and decision making processes at the Council relating to Bristol Energy Limited (BE) in 2019/20, we issued a qualified, 'except for' conclusion. In our opinion, the Council's arrangements for economy, efficiency and effectiveness were adequate, except for arrangements for 'Informed Decision Making' and the following principles: • acting in the public interest, through demonstrating and applying the principles and values of sound governance; and • managing risks effectively and maintaining a sound system of internal control. The particular findings that led us to this conclusion were: Arrangements for communicating key inputs to Cabinet from the Shareholder Group and Bristol Holding Limited, as well as the outcomes of scrutiny from the Overview and Scrutiny Management Board (OSMB), were inadequate. This input was important as the complex nature of the energy industry, and the specialist knowledge and expertise required, needed to be properly taken into account in supporting Cabinet's decision-making. As a result, the information and papers provided at the January 2020 Cabinet did not clearly state the risks faced by BE, or provide sufficient robust information to enable Cabinet to make an informed decision. More specifically: • Cabinet was not formally made aware of concerns raised at the Shareholder Group, including the fact that the Independent Shareholder Advisor was recorded as being unable to support the business plan; • the business planning and decision making process was prolonged so that information and advice obtained at the early stages of the process became out of date in a highly volatile energy market, such as the exempt financial report was out of date and was based on an earlier version of the business plan that had been provided to the Shareholder Group in November 2019; • the public papers did not include a risk assessment and, whilst the exempt version of the business plan included a list of risks and their mitigations, contrary to accepted practice, these risks were not scored or assessed against the likely impact and did not feature prominently in the report; and • the report from Bristol Holding Limited stated that both BE and Bristol Holding Limited remained concerned that it would not take much to drive BE into a situation that may require additional shareholder funding and/or collateral. As this report was included in exempt session, it was not contained within the main body of the papers provided to Cabinet but was included within the appendices and, as such, its messages were more difficult for Cabinet to consider.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Governance arrangements for the Council's subsidiaries (*continued*)	In our opinion, and supported by subsequent events, BE's business plan represented an overly unrealistic view of how BE might perform. BE's potential role in the City Leap partnership also appears to us to have been misjudged, as it was erroneously considered to be fundamental to the success of City Leap. Initially considering BE to be a 'non-negotiable' part of City Leap restricted consideration of the business plan options for BE, including its sale. Whilst previous consideration had been given to the sale of BE, this was not actioned until BE was in severe financial crisis and no other options were available. In addition, during 2019/20 the Council's Audit Committee had not always been sufficiently sighted on developments and information relating to the governance arrangements and risks in relation to BE. The Audit Committee is responsible for providing independent assurance on the governance and risk management framework and in order to discharge their responsibilities effectively, Audit Committee members should have had a closer involvement with the issues relating to the Council's investment in BE during the year. The situation has been compounded by the fact that some information and decisions, such as decisions made by the Shareholder Representative (Deputy Mayor), are not routinely published. In our opinion and based on practice elsewhere, we consider that these decisions could be published in the public domain. This approach, which restricts access to information, some of which does not need to be confidential, is creating concerns that the Council is not as open and transparent as it could be and should now be addressed within its governance arrangements.
Financial Sustainability The Council needs to ensure that it's financial plans and the assumptions that underpin them remain realistic and sustainable. If they are not, there is a risk that the Council does not deliver balanced budgets in the short to medium term and that the Council's resource deployment is not sustainable.	The 2019/20 revenue budget outturn was an overspend of £5.3 million (1%) against the revised budget, after transfers to reserves. This was a deterioration in financial position compared to 2018/19 when the Council reported an underspend of £3.2m. The 2019/20 overspend was attributable to Adult Social Care which overspent its net budget of £149m by £6m. The service did not achieve its target savings of £4.3m due to pressures from hospital discharges and insufficient supply of home care. The Council actively monitored and managed the revenue budget through 2019/20 to deliver this position. Although the Covid-19 pandemic began in March 2020 and hence late in the financial year, it did have a financial impact on 2019/20 with emergency expenditure being incurred in February and March, along with a reduction in income and an increase in debt. The Council utilised £0.5m of the emergency funding which it received from Government to address these financial pressures. The Council budgeted for £17.8m of savings, £11.7m relating to 2019/20 and £6.1m carried forward from 2018/19 which had not been achieved or delivered on a recurrent basis in 2018/19. 60% of these were delivered on an on-going basis with the remaining savings delivered using non-recurrent methods or not delivered in year. In 2020/21 the Council has a savings target of £15.3m, this includes savings carried forward from 2019/20. Delivering savings within 2020/21 remains a significant challenge and as at month seven the Council reported that only 40% of the savings target was 'safe'.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Financial Sustainability (continued)	Total reserves of £101.4m as at 31 March 2020 are equivalent to 25% of the Councils' agreed net revenue budget (£395m) for 2020/21, however the General Fund balance at 31 March 2020 was £6.3m lower than in the previous year as a result of funding the People directorate revenue overspend in year. As a result general reserves have fallen below 5% of the Council's net revenue budget which is not within the Council's general reserve principle, as set out within the MTFP, which states that General reserves should not be lower than the recommended 5-6% of the net revenue budget. We note that this is a temporary issue and that funding has been received that is to be utilised to increase the General Fund balance again. The outturn of the capital budget was £142.8m, £93.6m below the agreed budget and £110m below the revised period two budget. Analysis of the monthly capital monitoring reports identified that slippage was evident from period two across all Directorates and the HRA, and as the year progressed the situation did not improve. Although the Council has introduced a Capital and Investment Board to improve capital monitoring the indications are that arrangements need to be strengthened further and the focus should be on setting realistic budgets which allow for sufficient lead times before expenditure is likely to be incurred. This level of slippage is also likely to impact on the Council's growth and regeneration plans and strategic objectives and will require review in light of the slippage that has occurred. However, we do recognise that Covid-19 will have also compounded the situation. The Council continues to face uncertainty over the future of levels of funding along with the impact of Covid-19 and will need to deliver its savings targets going forward, however we consider that there were adequate arrangements in place to manage financial sustainability in 2019/20.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Joint Local Area SEND Inspection In November 2019 the Council received a letter setting out the findings of a joint Ofsted and Care Quality Commission (CQC) inspection. As a result of the findings of this inspection, and in accordance with the Children Act 2004 Regulations 2014, the inspectorate determined that a Written Statement of Action (WSoA) was required because of significant areas of weakness in the local area's practice. The five specific areas of improvement were: • a lack of accountability of leaders at all levels, including school leaders; • inconsistencies in the timetable and effectiveness of the local area's arrangements for the identification and assessment of children and young people with SEND; • a dysfunctional Education, Health and Care Plan (EHCP) process, and inadequate quality of EHCPs; • underachievement and lack of inclusion of children and young people with SEND; and • fractured relationships with parents and carers, lack of co-production and variable engagement and collaboration.	In February 2020 the People Scrutiny Commission received an update on the inspection and following this also held an open meeting asking members of the public, parents and carers to respond and inform the WSoA. The Council and the Clinical Commissioning Group were jointly responsible for submitting the written statement to Ofsted. The WSoA was agreed by Ofsted in March 2020 and has been published on the Council's website. The WSoA acknowledges that it will take some time to improve the arrangements and that progress will be monitored by the SEND Improvement Board. The WSoA also sets out the governance arrangements for both the CCG, Council and the Local Area. In March 2020 Cabinet received an update from the People Scrutiny Commission, but have not received an update since. The People Scrutiny Commission were formally updated in February 2020 and December 2020, receiving only an informal update in May 2020. The Health and Wellbeing Board have not received any updates and are part of the governance structure as set out within the WSoA. In May 2020 the Council published the feedback it had received from parents and carers and in September 2020 provided an update on the progress made on the July 2020 milestones. The report identified that 75% of the planned actions were achieved. It stated that Covid-19 had delayed or paused delivery for 12% of the actions and 13% were either on track for the end of the term or had changed focus due to the pandemic. Formal updates have been provided to Ofsted and CQC in July and November 2020. The notes of these meetings indicate that the regulators recognise that good progress is being made despite the disruption of COVID-19. We consider that arrangements are adequate, the Council has implemented a WSoA and is making progress on the milestones. However, we consider arrangements to report progress to elected members should be improved.

A. Reports issued and fees

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

Audit fees	Proposed fee
Council scale fee	£156,839
Additional proposed audit fee at planning stage	£54,350
Total proposed audit fees (excluding VAT) at planning	**£211,189**
Further additional fees proposed at completion	TBC

Reports issued

Report	Dated issued
Audit Plan	May 2020
Value for Money findings reports	January 2021
Audit Findings Report	March 2021
Annual Audit Letter	May 2021

Following the conclusion of our audit procedures we will review the time spent in delivering our audit responsibilities for 2019/20 and discuss our final fee proposal with the Council's Section 151 Officer. The final fee proposal will also be shared with the Audit Committee. All proposed fee variations are subject to approval by PSAA.

Fees for non-audit services

Service	Fees
Agreed upon procedures on the Council's Housing benefit Subsidy Claim 2019/20	£28,000
Agreed upon procedures on the Council's Pooling of Housing Capital Receipts return 2019/20	£5,000
Agreed upon procedures on the Council's Teacher's Pension return 2019/20	£8,000

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 table above summarises all non-audit services which were identified.

We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place. We noted that the Council's subsidiaries were audited by a component auditor and that this auditor provided VAT advice services to a value of £50,000 to Bristol City Council in August 2019. We concluded that as our 2019/20 audit was undertaken under the 2016 FRC Ethical Standard, it was permissible for component auditors within a Public Interest Entity group to carry out taxation services to entities within the group. We considered that the provision of these non-audit services did not impair the component auditor's independence or objectivity.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.