



BRISTOL CITY COUNCIL

REPORT TO THE AUDIT COMMITTEE - FINAL

Audit for the year ended 31 March 2016 - Issued to the Audit Committee - September 2016

PURPOSE AND USE OF THIS REPORT

We present our report to the Audit Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express 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 nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.



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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the resolution of matters set out in the outstanding matters section of this report
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated March 2016

KEY AUDIT AND ACCOUNTING MATTERS

- The audit has progressed smoothly and working papers and the draft financial statements were of a high quality. The key matters that have arisen in the course of our audit are summarised below:
 - i. The Council has changed the valuation of its interest in the Port from a historic cost to a % of net assets basis, which has increased the valuation from £2.5m to £24m. We have no evidence to suggest that the valuation is materially misstated (to be confirmed) but the Council should obtain professional assistance in valuing its stakeholding in future years and note that the value may change from year to year

AUDIT OPINION

- Subject to the successful resolution of outstanding matters set out in the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016
- We have no matters to report in relation to the annual governance statement
- We are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

- Our review of the Council's Whole of Government Accounts (WGA) data collection tool is still in progress
- We have received an objection relating to LOBOs (Lender Option Borrower Option) taken out by the Council in 2005 and 2010. The National Audit Office are co-ordinating a consistent approach among auditors to this issue and we are following their guidance, which may delay completion of the audit opinion and certificate. This is a national issue and impacts a large number of Councils.
- The severance package awarded to the departing City Director has been brought to our attention and any comments we have will be made in our 2016/17 report, as the payment was made in that year.
- Our observations on the quality of the audit and our audit independence and objectivity and related to matters are set out in Appendices VII and IV below.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated March 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have not identified any additional significant risks.

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override	<p>Auditing standards presume that a risk of management override of controls is present in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments to the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias and obtained an understanding of the business rationale of significant transactions that appeared to be unusual.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made to the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
Revenue Recognition	<p>Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	<p>We carried out procedures to gain an understanding of the Council's internal control environment relevant to preventing loss of income and ensuring that income is recognised in the correct accounting period.</p> <p>We tested a sample of transactions to confirm that it was appropriate to recognise the income and that it had recorded in the correct accounting period.</p>	<p>No issues have been identified by our testing of revenue from fees and charges. All items tested were reviewed to ensure that all relevant conditions were met and that the income has been recorded in the correct period.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ Normal risk ■ Other issue

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Investment property valuations and other investments	<p>The Code has introduced a change in the basis of valuation of investment properties (IFRS 13), from a market value to a 'highest and best use' valuation. There is a possibility that valuations may be significantly different in certain circumstances particularly where an investment property could be developed for use with alternative consents, such as residential conversion, or where a current lease term is coming to an end and the property could be developed to enhance rental amounts.</p> <p>The Council will instruct the valuer to carry out the annual valuation of the investment property portfolio having regard to the possibility of significant change in valuations under the highest and best use approach.</p> <p>Due to the significant carrying value of investment properties and inherent uncertainty that this new valuation basis could introduce, there is a risk that investment properties may not be appropriately valued at 31 March 2016.</p>	<p>We tested a sample of properties to confirm the property met the Investment Property definition and confirmed the valuation basis.</p> <p>We also reviewed the valuation of the Council's 12.5% investment in the Port. The Council has changed the valuation of its interest in the Port from a historic cost to a % of net assets basis, which has increased the valuation from £2.5m to £24m. We have no evidence to suggest that the valuation is materially misstated (to be confirmed) but the Council should obtain professional assistance in valuing its stakeholding in future years and note that the value may change from year to year.</p>	<p>We are satisfied that the Council's treatment of its investment properties has been appropriate.</p> <p>We have suggested that professional advice is taken in future on the value of the Council's stake in the Port.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Property, plant and equipment valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date.</p> <p>The Council carries out a rolling programme to ensure that all Property, Plant and Equipment required to be measured at fair value is revalued at least every 5 years. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards for RICS. A review of Other land and buildings was also carried out in the prior year to ensure that the previous valuation is not materially different to the fair value and no issues arose from this.</p>	<p>We reviewed the valuation performed by the Council's valuer and tested a sample of assets to confirm the valuation had been correctly accounted for.</p>	<p>We are satisfied that the Council's treatment of its PPE has been appropriate.</p>
Group entities	<p>There are a number of entities/transactions which have been set/entered into up by the Council in the prior year that we need to assess the impact on the current years accounts. In particular, we need to assess a number of arrangements/entities including the following:</p> <p>Bristol Waste Limited - the Council set up a company and has transferred the waste contract for the area to be run through this company. Due to the materiality of this company, this may possibly need to be treated as a group company and therefore consolidated into the accounts in the current year.</p> <p>Better Care Fund - due to the changes in regulations the health care funding in the current year is made through a new pooling arrangement with the Bristol Clinical Commissioning Group (BCCG).</p>	<p>We reviewed the accounts of the entities for which the Council has a financial interest but which were not consolidated .</p> <p>We are assessed the materiality of the entities to confirm that the accounting treatment employed by the Council was appropriate.</p> <p>We also tested the expenditure relating to the pooled budget with Bristol CCG.</p>	<p>The Council elected not to consolidate any of the entities that it controls on the basis that consolidation would not have materially affected the Council's accounts. We are satisfied that this decision was reasonable on the grounds that the adjustments would have been immaterial.</p> <p>We note that some of the entities are likely to increase in scale and therefore it is important that the position is monitored. In addition, it is also important that the arrangements that the Council has in place to exercise effective oversight of the subsidiary operations (or partnership arrangement) are kept under review to ensure that they are effective.</p> <p>We are also satisfied that the treatment of the Council's transactions in connection with the pooled budget are also correct.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Pension liability assumptions	<p>The net pension liability comprises the authority's share of the market value of assets held in the Avon Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as morality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	We tested the amounts and disclosures recorded in the Council's accounts to information provided by the Pension Fund actuary. We also requested information from the LGPS auditor to provide assurance on the amounts disclosed in the Council's accounts.	The amounts and disclosures made by the Council have been appropriate (subject to final completion of our procedures including receipt of information from the Pension Fund auditor, expected by the Audit Committee date).
Non-domestic rates appeals provision	<p>Billing authorities are required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled. Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.</p> <p>We consider there to be a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.</p> <p>We are aware that some NHS organisations are also appealing their business rate charge and are seeking to obtain charitable status to claim mandatory rate relief.</p>	We have reviewed the information provided by management to support the basis of the provision.	The approach followed to calculate the provision has been reasonable.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	RISK DESCRIPTION AND RELATED CONTROLS	WORK PERFORMED AND FINDINGS	CONCLUSION
Highways network assets	The Code will adopt the revised basis for valuations of highways network assets from 2016/17 (depreciated historic cost to depreciated replacement cost), and this will require implementation from 1 April 2016 but with no restatement for 2015/16.	We have reviewed the disclosures made in the accounts in relation to this for the current year and all the necessary disclosures have been included.	Our audit procedures have not identified any material omissions.
Related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	<p>We reviewed the Council's procedures for identifying related party transactions for disclosure in the related parties note, including signed declaration forms from members and senior officers. We carried out Companies House checks for a sample of members and senior officers and checked the completeness of interests included in the declaration forms. We also considered the completeness of related party disclosures based on knowledge gained from our other audit work.</p> <p>The Council has disclosed the total value of community grants paid to organisations in which members have interests. No other interests have been identified that require disclosure.</p>	The Council has adequate procedures for identifying related party transactions and our audit did not identify any omissions or inaccuracies in the related parties note in the financial statements.
Narrative reporting	The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements. The Narrative Report includes additional information not previously included in the Explanatory Foreword.	We reviewed the Councils "Narrative Report" to confirm all necessary disclosures were made.	Our audit procedures have not identified any material omissions.
Fraud and error	We are required to discuss with you the possibility of material misstatement, due to fraud or error. We are informed by management that there have not been any cases of material fraud or error, to their knowledge.	We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error.	Our audit procedures have not identified any material errors due to fraud.

KEY AUDIT AND ACCOUNTING MATTERS

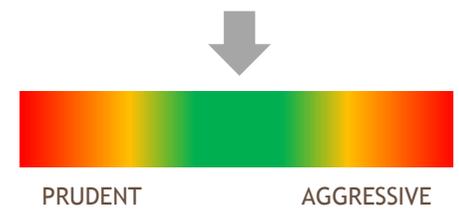
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ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below.

We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS</p> <p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date.</p> <p>The valuation for housing dwellings and land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices).</p> <p>The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a 'highest and best use' valuation. This means that valuations may be significantly different in certain circumstances. ></p>	<p>The Council used a qualified member of its staff to value its council dwellings, land and buildings, infrastructure assets and community assets, surplus assets and investment properties as at 31 March 2016.</p> <p>This resulted in a downward movement in the valuation of the non-investment property fixed assets of approximately £30 million and an upwards revaluation movement of approximately £37 million for investment properties.</p> <p>We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.</p> <p>We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.</p> <p>We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.</p> <p>The valuer also confirmed that there was no material movement in valuation between the valuation date and year end. This was corroborated by review of available market information.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

ESTIMATES

PENSION LIABILITY ASSUMPTIONS

The pension liability comprises the Council's share of the market value of assets held in the Avon Pension Fund and the estimated future liability to pay pensions.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.

We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report. >

AUDIT FINDINGS AND CONCLUSIONS

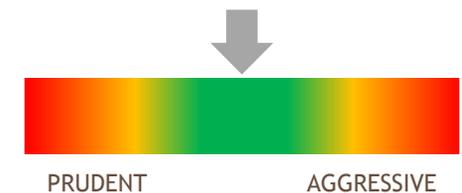
As at 31 March 2016 net pension liabilities disclosed in the Balance Sheet decreased from £705 million at 31 March 2015 to £693 million at 31 March 2016.

It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement.

The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2016 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions.

The key changes to the financial assumptions relate to an increase in the discount rate from 3.2% to 3.5%

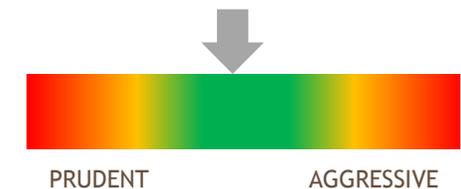
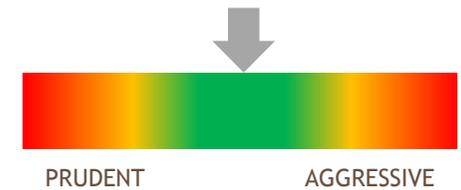
We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.



KEY AUDIT AND ACCOUNTING MATTERS

Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES</p> <p>The Council’s largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and business rates.</p> <p>The Council estimates the housing benefits overpayments impairment allowance using collection rate data. For Collection Fund debtors, the impairment allowances are based on write off rates, as credit control processes are robust and amounts are only written out after all recovery procedures are exhausted, which can take many years.</p> <p>We have reviewed management’s calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile. ></p>	<p>Overall we have concluded that the impairment allowances for receivables are reasonable.</p> <p>Housing benefit overpayments</p> <p>The impairment allowance at 31 March 2016 is £8.1 million, an increase of £0.9 million from the prior year, against an overpayments balance of £10.3 million. We are satisfied that the impairment calculation is based on actual collection rates in recent years and is reasonable.</p> <p>Council tax arrears</p> <p>The total impairment allowance for the Collection Fund for Bristol City Council at 31 March 2016 is £4.8 million an increase of £0.3 million from the prior year, against total arrears of £10.2 million. We are satisfied that the impairment calculation is based on actual write off rates and is reasonable.</p> <p>Business rates arrears</p> <p>The total impairment allowance for the Collection Fund for Bristol City Council at 31 March 2016 is £0.8 million, an increase of £0.04 million from the prior year, against total arrears of £2.3 million. We are satisfied that the impairment calculation is based on actual write off rates and is reasonable.</p>
<p>NON DOMESTIC RATES APPEALS PROVISION</p> <p>The Collection Fund in relation to Bristol City Council has provided £7.2 million in respect of appeals against rateable value that have not settled at 31 March 2016.</p>	<p>We have considered the basis of the provision and consider it reasonable.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
ACCOUNTING POLICIES	No comments arising
IMMATERIAL DISCLOSURES >	No comments arising
OTHER DISCLOSURE ISSUES >	We agreed a number of changes to the narrative supporting the financial statements including the removal of obsolete lines from the accounts. We also agreed a post balance sheet event disclosure note on the result of the referendum on the UK to leave the European Union.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MATTER		COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated 2 March 2016.
2	An overview of the planned scope and timing of the audit	See our audit planning report to you dated 2 March 2016.
3	Significant difficulties encountered during the audit	We have no matters to report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	All such matters have been dealt with elsewhere in this report.
5	Written representations which we seek	These are reproduced at Appendix VI.
6	Any fraud or suspected fraud issues	We have no matters to report.
7	Any suspected non-compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	All relevant matters have been included within this report.

SUMMARY OF AUDIT FINDINGS

STATUS	REPORTING LEVEL
 Not started	Significant issue
 In progress	Raised for your attention
 Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Journals		N	N	N	N
	Property, plant and equipment		N	N	N	N
	Debtors		N	N	N	N
	Cash and cash equivalents		N	N	N	N
	Short and long term investments		N	N	N	N
	Creditors		N	N	N	N
	Short and long term borrowing		N	N	N	N
	Employee benefits		N	N	N	N
	Other expenditure		N	N	N	N
	Grant income		N	N	N	N
	Other income		N	N	N	N
	Collection fund		N	N	N	N
	Housing Revenue Account		N	N	N	N
	Related party transactions		N	N	N	N
	Financial instruments		N	N	N	N
	Cash Flow Statement		N	N	N	N

SUMMARY OF AUDIT FINDINGS

STATUS		RISK LEVEL	
	Not started		Significant issue
	In progress		Raised for your attention
	Complete		No issue identified

AUDIT WORK STATUS		RISK LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Whole of Government Accounts		N	N	N	N
	Annual Governance Statement		N	N	N	N
	Narrative Report		N	N	N	N
	Use of resources		N	N	N	N

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit Committee at which this report is considered:

- 1 Conclusion on the LOBOs issue following final guidance to be issued by the NAO

- 2 Receipt of Pension Fund auditor letter

- 3 Review and agreement of the final WGA data collection tool against the final set of financial statements

- 4 Technical clearance

- 5 Subsequent events review

- 6 Management representation letter, as attached in Appendix VI to be approved and signed



OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

MATTER	COMMENT
1	<p>The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 13 June 2016.</p> <p>As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.</p>
2	<p>We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.</p>
3	<p>We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p>

CONTROL ENVIRONMENT

Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal controls.

No significant control issues have been identified in 2015/16. However, please note below two significant issues we are still considering

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
City Director severance payment	The severance payment made to the City Director, who left the Council at the end of July 2016, was brought to our attention by Council officers and we have made some initial informal observations on the process to them. We will comment more fully in our 2016/17 ISA260 report, as the payments were made in that year.			Noted.
Electors question (LOBOs)	We have received an objection from an elector relating to the Council taking out £130m of LOBOs between 2005 and 2010. The National Audit Office are co-ordinating a consistent approach among auditors to this issue and we are following their guidance, which may delay completion of the audit opinion and certificate. This is a national issue and impacts a large number of Councils.			We are waiting on further guidance from the NAO but are continuing to work with BDO to bring about a satisfactory resolution to the issue

CONTROL ENVIRONMENT

Other deficiencies and observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Employment contract	During testing on employees, a contract for one employee was unable to be located.	There is a risk that employees are being employed without valid/any contracts in place. This also poses a risk of fictitious employees being used.	All employees should sign a contract before starting employment and these contracts should be stored/kept appropriately.	Agreed - our Service Level Agreement is that all new starters will have a signed employment contract issued and returned prior to commencing employment.
Employment taxes	As part of our audit procedures, we obtained input from one of our Employee tax specialists to provide assurance in connection with employee taxes. A small number of immaterial matters were raised and we have notified management.	Possible failure to pay correct tax resulting in penalties to the Council.	Review issues raised by the BDO specialist and check that Council procedures address the point raised.	Agreed - the matters raised will be examined and appropriate actions put in place.
IT Controls	We obtained input from one of our IT specialists to provide assurance around IT related controls. A number of matters were raised with management including a need to review user access and to also formally document procedures for leavers so that access rights are promptly removed when an employee leaves.	Inappropriate access to the Councils' IT systems leading to possible fraud.	Access controls should be reviewed and leaver procedures updated to ensure that access rights are terminated promptly after a member of staff leaves the organisation.	We will undertake a review of our leaver procedures, with the focus on reducing the possibility of fraud, and amend as necessary. We will ensure that this procedures apply not just to council laptops but also mobile devices.
Student discount for Council tax	During our testing we found one instance of where the evidence for the discount being given was not valid for the whole period. This was identified by the Council after the year end and the monies are being recovered. There is no evidence to suggest this is systematic.	Risk of discounts being given for individuals when this is not valid as evidence has not been gathered.	Evidence in place to support claims for individuals needs to be reviewed to ensure that the whole period of the Council tax year is covered and additional evidence requested if this is not the case.	Annual reviews are undertaken but as a result of a technical issue on this one case further controls have now been put in place to avoid this happening in the future.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
<p>For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.</p>	<p>HM Treasury's WGA team issued a newsletter at the end of June to explain the delay in issuing the DCT which was released on Monday 4 July. This means that local authorities' deadline to submit the unaudited DCT to HM Treasury has been extended to 12 August 2016 and similarly our deadline to issue our audit opinion on the DCT has been extended to 21 October 2016.</p> <p>Our review of the Council's WGA Data Collection Tool (DCT) is in progress.</p>

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

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

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued in March 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
Sustainable Finances	<p>In February 2016, the Council prepared a Medium Term Financial Plan (MTFP) which identified a need to achieve a savings programme of £35.4 million for 2016/17 if spending was to be in line with forecast available resources. In addition, the Council's MTFP indicated that declining grant income forecast for future years would require further savings of approximately £134 million in the three year period from April 2017 to March 2020.</p> <p>The reduced level of financial resources ,combined with additional service pressures therefore creates a substantial financial challenge.</p> <p>We considered the Council's MTFP and the basis of the assumptions within these forecasts. We also obtained details of the Council's processes for managing the major transformation that will be required to achieve the cost savings and reviewed the arrangements for monitoring progress against financial targets.</p>	<p>The Council has continued to develop its arrangements to address the financial challenge that is present and a budget was set for 2016/17 that implied net spending of approximately £345 million in 2016/17.</p> <p>At the end of Quarter 1 (Q1) of 2016/17 (the three months to 30 June 2016) the Council is forecasting net expenditure of approximately £374 million and forecasting a deficit of approximately £29 million against the £345 million budget.</p> <p>The figures for Quarter 1 indicate that the progress that has been made in eliminating the £35 million budget gap identified in the MTFP has been insufficient and the Council will need to make substantial changes if it is to address its budget gap. The position has been reported to Cabinet and the seriousness of the position emphasized in the report prepared by the Council's Interim Finance & S151 Officer for the 6th September 2016 Cabinet. This report sets out some of the difficulties being experienced by the different directorates in reducing net spend (either from reduced spending or increasing income). In particular, the Council's Change Programme has a 2016/17 target of achieving £15.6 million of net spend reductions from a combination of reducing costs and increasing income. However, at 30 June 2016, the forecast is for a net spend reduction of £1.9 million against the budget target of £15.6 million.</p>

USE OF RESOURCES

Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
Sustainable Finances (continued)		<p>The Council does hold various reserves including a General Fund Strategic Reserve which at 31 March 2016 amounted to £20 million and could be used to absorb some adverse variances in 2016/17. However, in the context of the scale of the financial pressures and the reduced level of forecast income for 2016/17 and beyond, the Council's reserves are not sufficiently large to provide any significant longer term financial support.</p> <p>The Council is clearly facing a major financial challenge and will need to continue to monitor the position very closely. We are satisfied that the arrangements in place are currently reasonable but the scale of the financial challenge does indicate a need to monitor the position very closely as the overall position could deteriorate and quickly if it is not addressed.</p>
Informed decision making	<p>The NAO guidance includes assessing the arrangements for managing resources and making informed decisions. These arrangements are closely linked to the work in connection with sustainable resource deployment.</p>	<p>The Council has reasonable arrangements in place.</p>
Working with partners and other third parties	<p>The guidance from the NAO on value for money requires us to consider partnership working by the Council.</p> <p>The Council has a number of partnership arrangements in place, including a Better Care Fund arrangement with Bristol CCG where the intention is to move to closer joint working. The liaison with healthcare partners is evolving quickly and the Council has also established links with CCGs covering the wider area including Bath and North East Somerset and South Gloucestershire.</p> <p>The Council has also developed a number of other arrangements with partners and is an active participant within the Local Enterprise Partnership area.</p> <p>As with any partnership arrangements, there are risks around governance, control and value for money and therefore these do need to be assessed regularly and for all new proposed partnership arrangements. At the same time, it is important that the Council remains alert to opportunities to work with others and continues to seek out opportunities to work innovatively with its partners.</p>	<p>The Council has developed many partnerships with other organisations and in addition to the close working with the local CCGs it also works with many other partners across the wider area.</p> <p>The Council has reasonable arrangements in place for working with others and the governance arrangements are satisfactory.</p>

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Bristol City Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the members of the Audit Committee.
Management	The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: <ul style="list-style-type: none"> The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLICE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report. No differences were identified.

CORRECTED AUDIT DIFFERENCES

There are no differences that have been corrected in the revised draft financial statements.

UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences identified by our audit work .

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£19.4 million	£18.8 million
Clearly trivial threshold	£581,400	£564,000

Planning materiality of £18.8 million was based on 1.75 % of budgeted gross expenditure. We revised our materiality because the final figures were different from budgeted.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE

This is our first year of auditing the Council and accordingly no members of our team have been members of the Council's audit team for more than one year.

We have provided no services to the Council other than audit related services and details are set out in Appendix V.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2015/16	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
	£		
Audit fee	203,687	N/A	N/A
Certification fee (Housing benefits subsidy claim)	10,703	N/A	N/A
Estimated fee in connection with elector objection	Up to 10,000	N/A	N/A
TOTAL AUDIT FEE	224,390		
Reporting on government grants:			
Venturer grant review	1,500	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
Local Authority Major Transport Claim review	4,500	The threat to auditor independence from Audit Related Services is clearly insignificant	No safeguards required
TOTAL ASSURANCE SERVICES	230,390		

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

<Date> <Month> <Year>

Dear Sirs

Financial statements of Bristol City Council for the year ended 31 March 2016

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

APPENDIX VI: DRAFT REPRESENTATION LETTER

Continued

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements. Assets that have been valued are explained below:

Surplus assets have been valued by internal RICS qualified valuers to fair value reflecting highest and best use.

Investment properties have been valued by internal RICS qualified valuers on an investment income basis which we are satisfied represents highest and best use overall.

Investments in unquoted companies have been valued at the Council's share of each company's net assets.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note [X] to the financial statements are sufficient.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Annabel Scholes

S 151 officer

[date]

[Name]

[Title]

Signed on behalf of the Audit Committee

[date]

APPENDIX VII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits. We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.





FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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