The Audit Findings for Bristol City Council

Year ended 31 March 2021

Bristol City Council

May 2023

Contents

Your key Grant Thornton team members are:

Jon Roberts
Key Audit Partner
T: 0117 305 7699
E: Jon.Roberts@uk.gt.com

Katie Whybray
Senior Manager
T: 0117 305 7601
E: Katie.V.Whybray@uk.gt.com

Beth Bowers
Senior Manager
T: 0117 305 7726
E: Beth.AC.Bowers@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Name : Jon Roberts
For Grant Thornton UK LLP
Date : May 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bristol City Council ('the Council') and the preparation of the group's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been undertaken remotely and began in September 2021. Our findings are summarised on pages 5 to 25. We have identified adjustments to the financial statements that are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, although we are currently completing the following procedures:

- Review of final set of consolidation workings;
- Going concern consideration to the point of signing;
- Review of the final group cashflow statement;
- Review of Property, Plant & Equipment adjustments;
- Final review procedures;
- Receipt of the management letter of representation; and
- Receipt and review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation.

Our anticipated audit opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We issued our interim Auditor's Annual Report in June 2022 and presented it to the Audit Committee in that same month. The interim report identified no significant weaknesses but made a number of improvement recommendations. While our work is complete, the final version of the Auditor's Annual Report cannot be given until the financial statements opinion work is concluded. We will issue our Final Auditor's Annual Report at the same time as our audit opinion. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We received one objection to the financial statements. We undertook work on the objection between November 2021 and March 2022. on 29 March 2022 we wrote to the objector confirming that we would not issue a report in the public interest. We have completed the majority of work under the Code and expect to certify the completion of the audit upon the completion of the WGA required procedures.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee].

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the controls environment, including its group's internal IT systems and controls;
- An evaluation of the components of the group to assess the significance of each component to determine the planned audit response (Bristol Holdings Limited, BE2020 Limited (formally Bristol Energy Limited), Bristol Waste Company Limited, Goram Homes Limited and Bristol Heat Networks Limited; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

As explained on page 8 we have updated our approach to the presumed risk of revenue recognition for Bristol Energy since our audit plan was communicated to you. We have not made any other changes to our proposed audit approach as set out in the plan.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 8 March 2022, as detailed in Appendix E. These outstanding items are set out on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in November 2021.

We detail in the table our determination of materiality for Bristol City Council and Group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£15.0m	£13.65m	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year. Recognising the size and scale of the Council and the level of public interest regarding these accounts, we deemed that 1.2% was an appropriate rate to apply to the expenditure benchmark. We also applied this to the Group.
Performance materiality	£9.75m	£8.87m	65% of materiality was deemed an appropriate level for performance materiality, reflecting our experience of auditing previous year's accounts.
Trivial matters	£0.75m	£0.68m	5% of materiality was deemed an appropriate level for triviality, below which we do not report.

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls 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, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • tested high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration. Our audit work to date, including our review of journal entries and the related control environment, has not identified any significant issues with regards to management override of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	In our Audit Plan we set out that, having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted for the Council, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bristol City Council, mean that all forms of fraud are seen as unacceptable. At the time of writing the audit plan, we determined that the risk of revenue recognition could not be rebutted for Bristol Energy due to the significant of the company's turnover which was material to the Council and made up of revenue streams which are outside of the Council's usual activities. However, since our initial risk assessment we have obtained further information and understanding of the winding up process at Bristol Energy, including discussion with the subsidiary auditor, and have concluded that we are actually now able to rebut this risk for Bristol Energy. Our main considerations included; • management having little or no incentive to misstate revenue due to the ceasing of training during the year and no deemed incentive for overstatement • management not receiving any meaningful pressure related to financial results, with the sale of Bristol Energy to Yu Energy and Together Energy, taking place earlier in 20/21 financial year • management has little or no opportunity to commit fraud given the main trading ceasing part way through the year and the increased scrutiny due to this as well as the break up nature of the accounts This is a change to our planned approach which we set out in our Audit Plan and means the presumed risk of revenue recognition is rebutted for the Council and the Group as a whole.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Other Land and Buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements, due to the size of the values involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work, we have: • 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 Council's valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and assumptions that underpin the valuation • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • engaged an auditor's expert to further challenge underlying assumptions and terms of engagement with the valuer. The Council's land and buildings were valued by the Council's internal valuer and a portion of the asset valuations were outsourced to an external valuer. We therefore undertook the processes above on both valuers used by the Council. We instructed our auditor's expert to review and comment on the valuation instruction process (i.e. terms of reference) and commentary on the valuation methodology and approach, resulting assumptions adopted and any other relevant points. A number of queries and challenges were raised for both the internal and external valuers used by the Council. We were able to obtain sufficient responses and further evidence where required from both valuers to satisfy us that the instruction process and overall valuation methodology and approach used were appropriate. We undertook detailed testing on a sample of assets where we considered, amongst other factors, assets where they have been significant changes in assumptions, assets where movements in valuation not in line with our expectation and large or unusual assets. Our detailed testing of these assets included recalculating valuer calculations, detailed testing of assumptions and source data (such as floor plans, pupil numbers, land size, price per acre, rental yields and income for carparks) and consideration of obsolescence. The assets were revalued as at 31 October 2020 and indexed to 31 March 21. and we undertook detailed work to ensure the indexation process used by the valuer was appropriate and for those assets not revalued in year we used indices to corroborate the valuer's opinion that the value at year end was materially correct. As part of our work on the 2021-22 financial statements, we have identified a change in the valuation method of a number of assets, which we felt could impact on the valuations disclosed in the 2020-21 financial statements. To follow this up, our work in this area has involved requesting updated valuations and indices assessments from the Council's internal valuer to consider the impact on the 2020-21 financial position. The work identified an adjustment of £14.1m required to the 2020-21 financial statements which management have agreed to process.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (Housing) As above for Other Land and Buildings.	Our auditor's expert also reviewed the instructions and overall methodologies for the valuation of the Councils housing stock which was undertaken by the internal valuer. We were able to obtain sufficient responses from the valuer for the queries raised by our expert. The Council applies a Beacon Approach to its revaluation of Council dwellings, with 113 beacon properties of which 21 were formally revalued in 20/21. The whole portfolio is revalued over a 5-year rolling period. For those beacon properties not formally revalued, indices are applied by the valuer. The valuation is undertaken as at 1 October 2020 and the whole portfolio is uplifted using indices to the 31 March 21. Our review included understanding the Council's approach to the Beacon valuations and selecting a sample of beacons and properties to test to ensure the beacon valuations were reasonable in comparison to compare properties being marketed for sale as well as completing the same review for individual asset valuations. The valuer used the most up to date indices at the time of completing the valuation to uplift the valuation to 31 March 21. However, for our review we were able to use more up to date indices than those used by the valuer. When these were applied to the data, a material difference in the valuation of the Council dwellings was identified of £20.477 million. This is not an error made by the valuer, as at the time the most current information available was being used to inform the valuation. However, given the material movement based on more up to date information, we agreed with management that the total valuation figure in the statement of accounts will be amended to reflect this. An adjustment of £20.477 million has been made to the valuation of Council Dwellings due to more up to date information being available. This is included within the adjustment's summary in appendix A. Overall, we were able to conclude, subject to the above adjustment, that the valuation of Land and Buildings (Housing) is materially stated. No further issues were identified for us to report.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Property The Authority is required to revalues its investment properties at fair value on an annual basis at 31 March 2021. 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 valuation of investment property, as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work, we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register. • engaged an auditor's expert to support our response to the valuation of investment properties. The Council's investment properties were valued by the Council's internal valuer and a portion of the asset valuations were outsourced to an external valuer. We therefore also undertook the processes above on both valuers used by the Council. We instructed our auditors expert to review and comment on the valuation instruction process (i.e. terms of reference) and commentary on the valuation methodology and approach, resulting assumptions adopted and any other relevant points. A number of queries and challenges were raised for both the internal and external valuers used by the Council. We were able to obtain sufficient responses and further evidence where required from both valuers to satisfy us that the instruction process and overall valuation methodology and approach used were appropriate for investment properties. We selected a sample of investment properties for detailed testing including individually significant properties, those where the value is outside of our expectation and a sample of those where the value is in line with expectation. Our testing covered properties within industrial, office and retail sectors. Our detailed testing included testing of the key assumptions and source data and review of the indexation process from the valuation date (1 October 20) to year end. **Overall, we were able to conclude that the valuation of investment properties is materially stated. No further issues were identified for us to report.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of long-term investments The Authority hold material long term investments in its balance sheet. These include the estimated valuation in an unquoted equity investment - First Corporate Shipping Limited (trading as The Bristol Port Company) that is valued on the Balance Sheet at 31 March 2021 at £29m. These investments are by their nature hard to value estimates, and management have estimated their value based on a range of estimation techniques. We have identified the valuation of the Authority's long term unquoted investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	As part of our work, we have: • discussed the valuation techniques adopted with management and obtain their calculations for the valuation of the unquoted equity investments and assess these against accounting standards; and • engaged our internal valuations experts to review management's estimates and to provide us with assurance over the valuation of the Authority's unquoted equity investments It was agreed with the Council that they would engage an expert to support the valuation of the Port Authority on a cyclical basis with this last completed in 2019/20. Therefore, the Council's finance team undertook the valuation for 2020/21 adopting the approach and techniques used by their expert in the previous year. We have engaged our internal valuations expert to review management's estimates and have been provided with a number of follow up queries and clarification points which we have shared with the finance team for comment. Our expert concluded that based on the procedures associated with their review of the valuation prepared by management, our experts understanding of the industry and discussions with management, it is not unreasonable to rely on the management prepared analysis in recording the fair value of the investment as at 31 March 2021. Our expert did however note that the Cost of Equity used to value the investments was built up using elements as at 15 April 2021 rather than 31 March 21. The expert performed a shadow Cost of Equity calculation which when applied to the valuation gave a range for the valuation of £28 million - £35 million. The Councils valuation is within this range and the top and lower ends of the range are not materially different to the Council's valuation of £29 million. Going forward it is recommended that the Council ensure the Cost of Equity calculation is built up as at the valuation date and not on a date after the valuation date. Overall, we were able to conclude that the valuation of the Bristol Port Company is materially stated. A recommendation has been made in appendix A regarding the Cost of Equity calculation.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.129bn in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates.	As part of our work, we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and 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 Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority 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 • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. In 2020/21 the Council made an upfront payment of deficit contributions for the three years 2020/21 – 2022/23 totalling £20.43 million. The payment was made in April 2020 and gives the Council an overall saving of £1.295 million). We reviewed the supporting documentation for this up-front payment and the accounting treatment in the Statement of Accounts and were able to conclude this has been appropriately accounted for in 2020/21. We did identify two areas for recommendations to the Council: • we recommend that the Council includes additional narrative to explain to readers that the up-front payment leads to a temporary imbalance between the net pension liability and the pensions reserve, and that the payment will be released to the pension reserve over the respective three-year period • It is deemed good practice for significant transactions, such as the above are reported to members in advance of their undertaking and, therefore, we recommend this is done for any future up-front payments. Our audit work has identified no significant issues in respect of the Pension Fund Net Liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Risk of fraud related to expenditure recognition Practice note 10 In line with the Public Audit Practice note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may in some cases by greater than the risk of material misstatements due to fraud related to revenue recognition.	Having considered the nature of the expenditure streams of Bristol City Council, and on the same basis as that set out for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Valuations of Infrastructure Assets The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment. As the audit progressed we identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register. This was a national accounting issue affecting all Authorities with material infrastructure asset balances.	The inherent risks which we identified in relation to infrastructure assets were: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components; and • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. We have been working with CIPFA and the Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by Government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs). The English SI includes two key elements: 1. The local authority is not required to make any prior period adjustments (PPAs) in respect of infrastructure assets 2. Where a local authority replaces a component of an infrastructure asset the carrying amount to be derecognised can be determined as nil or calculated in accordance with normal accounting practices specified in the CIPFA Code. This has meant that the only remaining risks relates to the accuracy of in year depreciation and accuracy of any impairment consideration where relevant. The Council has updated its accounts to reflect the updated disclosure requirements as Infrastructure assets are now only required to be disclosed on a net book value basis. We have completed the following work focusing on the Council's current year's infrastructure assets: • reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets; and • evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs. We have identified several issues relating to Infrastructure assets. The Council has used a long useful life for a number of infrastructure assets, which produces a lower than expected depreciation charge. We also identified that the depreciation charge is only allocated to one asset in the asset register rather than being allocated across all of the individual infrastructure assets. Finally, we identified that the overall depreciation charged in 2020-21 was outside of the range we determined using standard lives provided by CIPFA. Our review identified that the Council's depreciation charge was outside of the range by £759k and differed to the midpoint of the range by £3.1m. While neither of these values is material, we have raised recommendations relating to infrastructure lives in Appendix B. Our work has concluded and we are satisfied that the estimate is not materially misstated.

2. Financial Statements – Key findings arising from the Group audit

Component	Component auditor	Findings	Group audit impact
BE2020 Limited (formally known as Bristol Energy Limited)	PricewaterhouseCoopers LLP	We issued group auditor instructions to PricewaterhouseCoopers LLP who have responded with all the required information to inform our group audit. We undertook a file review of the component auditor's audit file and were able to obtain the required level of assurance from the work completed by the component auditors for our group opinion. An unqualified audit opinion of BE2020 Limited was issued by PricewaterhouseCoopers LLP on 29 June 2021. No significant issues were identified, although the auditor did report that the accounts were not compiled on a going concern basis, which we included in our group evaluation of going concern.	No issues have been noted in respect to the group audit opinion.

2. Financial Statements – new issues and risks

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

Issue	Commentary	Auditor view
IFRS 16 implementation • Although the implementation of IFRS 16 has been delayed to 1 April 2022 (and could be delayed further under current emergency consultation arrangements), audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Note 2 of the financial statements include the following disclosure: "The required date of application and the date that the Council will adopt IFRS 16 is 1 April 2022. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for most leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. While this is expected to have little impact on the Council, work will need to be undertaken during 2021/22 to ensure significant lease type arrangements across the Council are identified and accurately recorded. This will include a review of existing and creation of new processes for managing and recording lease arrangements."	The disclosure in the accounts meets the requirements we would expect in order to comply with the requirement of IAS 8 para 31. The original implementation date for IFRS 16 of 1 April 2020 was deferred due to the Covid-19 pandemic.
Recognition and Presentation of Grant Income • The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. This requirement was a more significant aspect of this year's accounts due to the significant levels of COVID-19 grants this year. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income	We have undertaken detailed sample testing for COVID-19 grants, other grant income and grants received in advance, considering the agent / principal judgements, any outstanding conditions, terms that would indicate any capital, ringfenced or non-specific grant income and the statutory accounting requirements for the grants.	Our work is ongoing in this area. At this stage we have found no discrepancies in the Council's treatment of grant income and the accounting of this in the statement of accounts.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building - Other – £641.3m	Other land and buildings comprises £473.2m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£168.1m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged its internal and external valuer to complete the valuation of properties as at 31 October 2020, as part of its five yearly cyclical basis. 89% of its total land and building assets was revalued during 2020/21. The assets were revalued as at 31 October 2020 and indexed to 31 March 2021. We undertook detailed work to ensure the indexation process used by the valuer was appropriate and, for those assets not revalued in year, we used indices to corroborate the valuer's opinion that the values at the year end were materially correct. The total year end valuation of 'Other land and buildings' was £641.3m, a net increase of £2.2m from 2019/20 (£639.1m).	We have carried out the following work in relation to this estimate: • assessed management's expert to ensure suitably qualified and independent, • assessed the completeness and accuracy of the underlying information used to determine the estimate, • confirmed there were no changes to valuation method, • assessed the consistency of the estimate against near neighbours and using the Auditor's expert report, and • assessed the adequacy of disclosure of the estimate in the financial statements. • engaged an auditor expert to further challenge underlying assumptions and terms of engagement with the valuer. From the assets we tested, we identified a number of errors. The extrapolated error was a £4.1m understatement of the other land and buildings balance. This is not considered to be material and is shown as unadjusted in Appendix C. Our work also identified a change in valuation methodology as part of our 2021-22 financial statements audit, leading to consideration of the impact on the 2020-21 financial statements. This has lead to a £14.1m adjustment to the financial statements.	● Light Purple

Assessment

- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing – £1,772m (forms part of the significant risk for the revaluation of land and buildings)	The Council owns 26,767 dwellings (as per Note 1 of the Housing Revenue Account) and is required to revalue these properties in accordance with DCLHG's (Government's) Stock Valuation for Resource Accounting guidance. The guidance requires the use of a 'beacon methodology', in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its internal valuation team to complete the valuation of these properties. The year end valuation of Council Housing was £1,772m, a net increase of £94m from 2019/20 (£1,678m).	We considered the competence, qualifications and independence of management's valuation experts and used our own valuation expert to review the relevant terms of reference and valuation report and identified no issues. We confirmed that the information used by the valuer was complete and accurate and that the Beacons used in the valuation process were appropriate and consistent. We also confirmed that the valuation approach was consistent with the prior year and was in accordance with the guidance on stock valuation for resource accounting. We challenged the indices used in the valuation process, with the assistance of our auditor's expert, and also corroborated the valuation of beacons valued in year to market data and were satisfied with the results. The valuer used the most up to date indices at the time of completing the valuation to uplift the valuation to 31 March 2021. However, on our review we were able to use more up to date indices than those used by the valuer. When these were applied to the data, a material difference in the valuation of the Council dwellings was identified of £20.477 million. This is not an error made by the valuer as at the time the most current information available was being used to inform the valuation. However, given the material movement based on more up to date information, management agreed that the total valuation figure in the statement of accounts will be amended to reflect this. An adjustment of £20.477 million has been made to the valuation of Council Dwellings due to more up to date information being available. This is included within the adjustments summary in Appendix A.	● Light Purple
Provisions for NNDR appeals - £25.5m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	Management calculate the percentage success rate of appeals based upon the number of appeals. We reviewed the VOA data which highlighted that higher value appeals appeared to have a higher success rate. As such, we recalculated a success percentage based upon the value of successful appeals, rather than the number of successful appeals, which resulted in a difference of £614k, which was not considered material to the estimate.	● Light Purple

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1.128bn	The Council's total net pension liability at 31 March 2021 is £1.128bn (PY £994m). The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £112.346m net actuarial loss during 2020/21.	We have carried out the following work in relation to this estimate: • assessed management's expert to ensure suitably qualified and independent • assessed the actuary's roll forward approach taken • used PwC as auditor's expert to assess the actuary and assumptions made by actuary. The table summarises where Bristol City Council fall in the acceptable ranges set out by PwC: (see table below) We have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate. We have also gained assurance over the reasonableness of the Council's share of Avon Pension Fund's pension assets, and we have reviewed the adequacy of disclosure of the estimate in the financial statements	● Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.1%	2.1% - 2.2%	●
Pension increase rate	2.7%	2.7%	●
Salary growth	4.2%	3.95% - 4.2%	●
Life expectancy – Males currently aged 45 / 65	24.7 / 23.2	22.5 – 24.7 / 20.9 – 23.2	●
Life expectancy – Females currently aged 45 / 65	27.3 / 25.3	25.9 – 27.7 / 24.0 – 25.8	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Unquoted equity investments - £29m (forms part of the significant risk for the revaluation of long-term investments)	The Council has an investment in First Corporate Shipping Limited (trading as The Bristol Port Company) that is valued on the Balance Sheet at 31 March 2021 at £29m. The investments are not traded on an open exchange/market and the valuation of the investments is subjective. The investment was valued by an external expert in the prior year (31 March 2020) and the valuation has been refreshed using the same approach by officers for 31 March 2021.	• We have commissioned our internal Grant Thornton valuation specialists to support us with gaining assurance over the valuation of the Bristol Port Company as at 31 March 2021. • We have been able to conclude that the valuation is materially correct • We have made one recommendation regarding the calculation of this estimate – see page 12 for more information regarding this.	● Light Purple
Minimum Revenue Provision - £13.611m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £13.611m, a net increase of £2.980m from 2019/20.	• We recalculated the Council's MRP using the Council's methodology and our calculation was in line with the Council's • Confirmed the MRP meets the requirements as set out in regulations and statutory guidance • Considered the voluntary set aside made by the Council and concluded it had been appropriately made • Confirmed the Council's MRP to Capital Financing requirement and Debt to Capital Financing requirements are appropriate • Where the Council is making an overpayment recovery we have confirmed this is completed in line with the regulations and statutory guidance and is supported by prior evidence to confirm this is an appropriate over payment to be able to reclaim.	● Light Purple

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Bristol Energy	The winding down of Bristol Energy had led to a number of accounting transactions within the 2020/21 statement of accounts. During 2020/21, the commercial customer contracts had been sold to YU Energy and the domestic customer contracts to Together Energy and a decision made to opt for a Members' Voluntary Liquidation process. The 2020/21 statement of accounts for Bristol energy were prepared on a break-up basis because of this and therefore were not prepared on a going concern basis. As part of our review, we have - Gained an understanding of the wind-up process in order to understand the transactions impacting the 2020/21 statement of accounts at both the single entity and group level - Challenged management on the accounting treatment of this - Reviewed the calculation of the wind-up provision to ensure the completeness of this - Reviewed the disclosures within the statement of accounts in relation to Bristol Energy and challenged management on the sufficiency of these, given the significance of the wind up, including post balance sheet events notes.	We have reviewed and understood the accounting treatment of Bristol Energy in both the single entity accounts and the group accounts and have been able to conclude the appropriateness of these. We challenged the Council's calculation of the wind-up provision and were able to obtain sufficient and appropriate evidence to support the amount provided for by the Council, including gaining assurance over the completeness of the provision. We discussed with management the requirement to include further disclosure within the statement of accounts to aid readers understanding of the wind-up process with Bristol Energy and the impact this has on the statement of accounts. We did not feel that the draft accounts included sufficient transparency on this and therefore the impact was not clear to a reader of the accounts. The Council updated the disclosures with a more detailed explanation being included within the narrative report. A post balance sheet event was also added to reflect the fact Bristol Energy went into liquidation in June 221, after the year end (a non-adjusting post balance sheet event). In January 22 it was reported that Together Energy (whom Bristol Energy sold its customer contracts to) had begun the process of liquidation. We involved an internal specialist to support us in our assessment of any guarantees. Further procedures involved challenging the Council on whether this would bring any further liabilities or risks onto the Council, the S 151 Officer confirmed there were not any further liabilities to be recognised. Overall we are able to conclude that Bristol Energy transactions and disclosures within the final statement of accounts are appropriate.

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Bristol Beacon Valuation	Bristol Beacon is held as an asset under construction within the statement of accounts. Management have undertaken an impairment review of the asset at year end due to the significant additional costs required on the project. Management enlisted the support of an external valuer to value the asset as at year end. A value of zero was attributed to the value leading to a significant impairment to the asset. As part of our review, we have - Challenged management on the transaction and how the CIPFA code for the measuring of impairments has been followed - Given the unusual nature of the impairment and the complexity of the valuation report obtained by the Council from their external valuer, we have requested support from our auditors expert in reviewing this and aiding us in concluding on the appropriateness of the value which the asset is being held in the statement of accounts (impairment to £0).	We have challenged the Council on the approach taken regarding the year end valuation of the Bristol Beacon including both the accounting treatment and how this is in line with the CIPFA code and accounting requirements and also the valuation approach. The Council determined that an impairment review of the Bristol Beacon asset (held as an asset under construction at year end) was required as at 31 March 2021. The CIPFA code requires Council's to assess at the end of each reporting period whether there is any indication that an asset may be impaired and therefore the Council has followed this requirement. We challenged the Council on how the recoverable amount of the asset was determined and were able to conclude that this was in line with the CIPFA code requirements. The Council utilised an external valuer to provide them with a formal valuation of the Bristol Beacon in order to determine the value as at 31 March 21. This valuation was reported by the external valuer as £0. We obtained advice from our auditor's valuation expert in order to review the valuation and determine whether this was appropriate. They were able to conclude that the approach, valuation method and resulting valuation appear appropriate when considering the circumstances of the asset at the valuation date. Overall, we are able to conclude that the valuation of the Bristol Beacon at 31 March 2021 is appropriate.

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted, and the requests were sent. All confirmations were received with no issues noted. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted, and the requests were sent. We have received the pension fund auditor's letter of assurance and no issues were noted that impacted on our pension liability work. We requested management to send letters to those solicitors who worked with the Council during the year. A response has been received for all of these and no issues noted which impacted on our audit approach or testing strategies.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	Whilst some improvements have been made in terms of our respective working arrangements this year, we experienced delays in the receipt of some working papers and explanations to audit queries and matters are still taking longer to resolve than both sides would like. Following completion of the audit we will discuss this with officers to understand how the process can be improved in future years. As an area of priority for this exercise, due to the Council's financial accounting system, the Council was initially unable to provide us with a year end listing of its debtors and creditors to allow us to sample from. As such, there was a delay in initially selecting the sample while waiting for an appropriate listing and a larger sample than required due to certain balances requiring testing. This resulted in significant additional time input for ourselves and management. We have made a recommendation in respect of this in Appendix A.

2. Financial Statements - other communication requirements

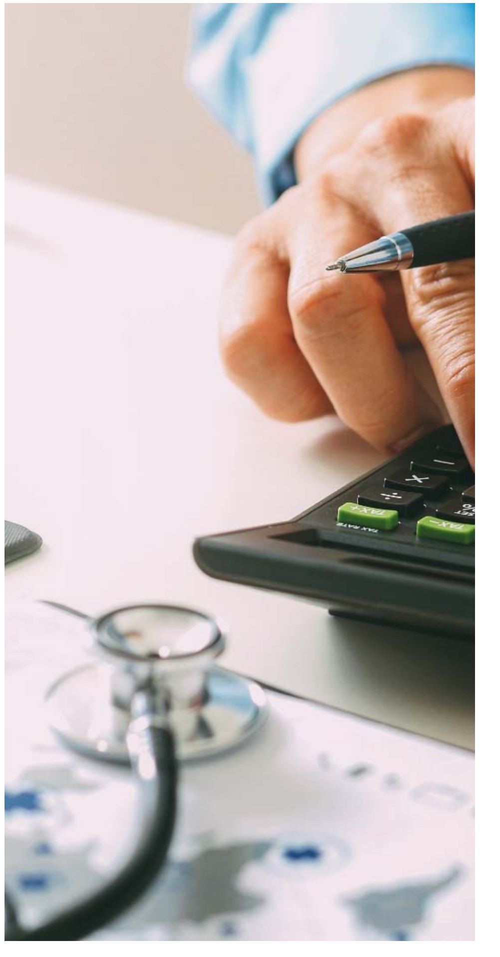
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. We also considered going concern at the group level and obtained managements assessment of this. In particular it was noted that Bristol Energy accounts were prepared on a break up basis in 2020/21 and therefore not on a going concern basis. However, not withstanding this, we were able to conclude that as a whole, the group is a going concern. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that at the Council and Group level: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the Council and Group financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We identified a number of inconsistencies between the narrative report and the statement of accounts as well as some CIPFA requirement not disclosed adequately within the report. The Council has agreed to amend the report and we are expecting to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. Our review of the annual governance statement has not noted any misleading or inconsistent information and its contents deemed to be in line with disclosure requirements. One objection was made to the 2020/21 accounts and we are in the process of reviewing this and look to conclude on this in March 2022. At this stage, we have not completed our value for money audit.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. At this stage the guidance has not been released by the NAO although we expect Bristol City Council to fall above the threshold for detailed WGA procedures.
Certification of the closure of the audit	We intend to certify the closure of the 2020/21 audit of Bristol City Council in the audit report, on completion of WGA procedures.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We issued our interim Auditor’s Annual Report in June 2022 and presented it to the Audit Committee in that same month. The interim report identified no significant weaknesses but made a number of improvement recommendations. While our work is complete, the final version of the Auditor’s Annual Report cannot be given until the financial statements opinion work is concluded. We will issue our Final Auditor’s Annual Report at the same time as our audit opinion. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

4. Independence and ethics

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

- we confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard;
- we have received confirmation that Gerald Eve, the auditor's expert in respect of land and building valuations, are independent; and
- We have received confirmation that PriceWaterhouseCoopers LLP, our auditor's expert in respect of land and building valuations, are independent.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees	Threats identified	Safeguards
Audit related			
Certification of Housing Capital Receipts Return 2020-21	£5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £265,339 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return 2020-21	£8,000	Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim 2020-21	£28,000		
Certification on behalf of Homes England in respect of social housing and assistance and grants to facilitate the development and provision of affordable housing	£6,000		

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

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

Appendices

A. Action plan – Audit of Financial Statements

We have identified 13 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	Due to the way that the Council operates its financial ledger, it is not possible to produce a listing that only exclusively details year end debtor and creditor balances. As a result, the listing contains opening balances carried forward from the prior year as well as in-year movements. This has resulted in significant additional audit team and management resource during the previous three years' audits.	The Council should undertake a detailed review of its financial ledger coding to ensure that year-end transactional listings can be produced for year end balances such as debtors and creditors and these should be provided as a routine working paper at the start of future annual financial statements audits. Management response We will endeavour to further improve the debtor and creditor working papers but by their complicated nature there will always be some need to provide further explanation on a number of the brought forward balances.
	The Council has treated their loan to Goram Homes Limited as a Long Term Debtor, held at Amortised Cost. We considered this against accounting standards and CIPFA guidance and are satisfied that this treatment is appropriate at 31 March 2021.	IFRS 9 requires entities to assess classification on an annual basis, with one indication of a reclassification trigger being the payee's intention or ability to repay the loan. We recommend that management monitors Goram Homes Limited's performance against its business plan and uses this as a basis to assess the classification of the loan on an annual basis. Management response Goram Home's performance is assessed against its performance during the year via the Shareholder group and, more formally, both as part of the budget setting and year-end closedown processes.
	Our testing of usable reserves transfers in 2020/21 identified that management have not approved reserve transfers in line with their policy of S151 approval being required.	Management should ensure that the reserves transfer policy is followed and that movements in usable reserves have the documented approval of the Section 151 Officer. Management response Reserve movements are discussed and agreed with the S151 Officer and the Deputy S151 Officer. The Deputy S151 Officer then provides written approval, usually via email. Will ensure there is a clear document trail going forward.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	The Council insured the repairable sums (indemnity amount) again in 2020/21, with no additional insurance cover taken out for one of the Council's heritage assets.	Management should ensure that all heritage asset values are included in the next insurance valuation undertaken. Management response Management has agreed with the recommendation
	The Council is unable to access bank statements that are dated older than 15 months. If bank statements are required, then the bank charge the Council at a significant cost.	Management should carry out an exercise regularly throughout the year to ensure all bank statements are saved so that they can be accessed during the time of the audit. Management response Agreed. These are now retained for the Council's main bank accounts.
	In 2020/21 the Council made an upfront payment of deficit contributions for the three years 2020/21 – 2022/23 totalling £20.43 million.	Where the Council undertake significant transactions such as the upfront pension payment, it is good practice for these to be approved by members. Management response Management has agreed with the recommendation and it has been implemented for 2023/24.
	The Cash reconciliation included significant number of reconciling items which were not true reconciling items but items on both the statement and cashbook which had not been matched off by the Council.	The Council should review it's bank reconciliation process to match off the contra reconciling items so true reconciling items can be easily identified. Management response Management has agreed with the recommendation and a review is underway.
	We experienced difficulties obtaining up to date calculations to support management's recharges in respect of the General Fund and HRA expenditure.	The Council should ensure calculations for recharges are reviewed each year to ensure they are up to date and still appropriate Management response Management has agreed with the recommendation, these are being reviewed.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	When valuing the Bristol Port Authority Investment, the Council built up the Cost of Equity using information after the date of the year end. There is a risk that not using information as at the year end date will impact on the accuracy and validity of the valuation.	The Council should ensure all elements of the valuation use information as at the year end date Management response Management has agreed with the recommendation and will document the reasoning behind selection of alternative information if required.
	We experienced difficulties obtaining evidence to support management's estimate of HRA deprecation.	The Council should ensure that the cost of components used in the calculation of HRA depreciation charge can be evidenced to supporting documentation and are up to date and representative of the cost of replacement. Management response Management has agreed with the recommendation **and will review it's methodology**
	We identified a heritage asset which is held by the Council on behalf of the owner and therefore are excluded from the statement of accounts as not owned by the Council, however the loan agreement between the Council and the owner had expired. The Council were able to obtain an updated loan agreement and therefore we were able to conclude the asset was correctly excluded from the Council's accounts.	The Council should ensure required loan agreements for heritage assets held by the Council on behalf of the owner are kept up to date. Management response Management has agreed with the recommendation. These agreements will be reviewed.
	Our review of useful economic lives identified a number of plant & machinery assets which had lives outside of the council's policy range. We obtained supporting evidence and explanations for the lives allocated and are satisfied that the council's treatment is appropriate.	We recommend that management updates its policy to reflect a wider range of useful lives of assets in this category. Management response Management agrees with the recommendation
	Our review of infrastructure assets identified that the useful lives assigned to the assets were not in line with ranges proposed as appropriate by CIPFA.	We recommend that the Council reviews all infrastructure assets to assign useful economic lives that are appropriate for the assets and where these differ from ranges suggested by CIPFA, the council should document clearly why this is appropriate for the specific asset. Management response Management agrees with the recommendation

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Bristol City Council's 2019/20 financial statements, which resulted in 5 recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Our review of useful lives of Vehicles, Plant & Equipment assets identified that assets with a gross book value of £6.9m were fully depreciated at the year end and had been fully depreciated throughout 2019/20. The risk associated is that the assets are not being depreciated over an appropriate useful life and that the Council's depreciation charge is therefore not the correct value.	Our review of the useful lives of Vehicles, Plant & Equipment has identified that as at 31 March 2021 assets with a gross book value of £13.3m were fully depreciated. We have undertaken a review of individual useful lives of assets and while they are deemed to be appropriate on an individual basis, we continue to recommend that management review's it's fully depreciated assets to confirm all are still in use.
X	Due to the way that the Council operates its financial ledger, it is not possible to produce a listing that only exclusively details year end debtor and creditor balances. As a result, the listing contains opening balances carried forward from the prior year as well as in-year movements. This has resulted in significant additional audit team and management resource.	The Council was unable to provide the correct listing of year end debtors and creditors again in 2020/21, which resulted in additional resource from both management and the audit team. This has been raised as a recommendation again in 2020/21.
✓	Our testing of land and building valuations identified instances when supporting information (such as scaled floor areas) could not be provided and other instances of incorrect assumptions being applied, such as incorrect floor areas or BCIS rates. There is a risk that the valuations of land and buildings reflected in the financial statements are incorrect as a result of these incorrect assumptions or datasets.	The audit team identified that there was an improvement to the evidence provided for land and building valuations.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Council has treated their loan to Goram Homes Limited as a Long Term Debtor, held at Amortised Cost. We considered this against accounting standards and CIPFA guidance and are satisfied that this treatment is appropriate at 31 March 2020.	The Goram Homes loan was correctly accounted for as a Long-Term Debtor again in 2020/21.
X	The Annual Governance Statement currently states in para 1.4 that it "provides an overview of how the Council's governance arrangements have operated during 2019/20 and up to the date it is signed." It could be made clearer that this means the date the final financial statements are approved, and this document should be resigned alongside approval of the final statement of accounts. There are also areas where specific reference could be made in respect of the key elements of governance per "Delivering Good Governance in Local Government: Framework (2016)".	The 2020/21 Annual Governance Statement states in para 1.4 that it "provides an overview of how the Council's governance arrangements have operated during 2020/21 and up to the date it is signed". We again consider that this statement could be make clearer to reflect it is up to the date the final financial statements are approved and this document should be re-signed alongside approval of the statement of accounts.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position £' 000
Management noted an error which had been posted in the draft accounts in respect of central governments share of pooled right to buy capital receipts amounting to £2.115m. MHCLG creditor had not been posted to the Balance Sheet and instead incorrectly credited to Other Operating Expenditure and Income.	Dr Other Operating Expenditure and Income £2.115m	Cr Creditors £2.115m
The indices that the valuer used had moved since the date the valuer report was prepared. This has been identified by corroborating data points with publicly available data. We have recalculated the indexation exercises and the total impact of this is a reduction of £20.477m to the Council Dwellings portfolio.	Nil	Dr Revaluation Reserve £20.477m Cr Council Dwellings £20.477m
The valuation methodology was amended for a number of assets in 2021-22. Our audit work in that year identified this, and when the impact was considered for 2020-21, it was identified that a £14.1m adjustment was required to increase the value of Other Land & Buildings.	Cr Other comprehensive income £14.1m	Dr Property, Plant & Equipment £14.1m
Note 30 Cash and Cash Equivalents was showing an overdraft of £20.702m, which was specifically a technical overdraft that had not cleared at year end. Subsequent to year end this was cleared using short term deposit funds. For presentation purposes, we requested that management amend the Balance Sheet to reflect Cash and Cash Equivalents within Current Liabilities.	Nil	Dr Current Assets £20.702m Cr Current Liabilities £20.702m
Overall impact	£16.515m	£16.515m

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Note 8 Expenditure & Income Analysed by Nature states 2019/20 figures as revised, when they are not.	We recommend that this is adjusted.	✓
Revaluations table within Note 20 has not been updated from 2019/20 accounts. Should read 1 Oct 2020 through to 1 Apr 2016.	We recommend that this is adjusted.	✓
A number of amendments were noted within Note 34 Pensions: • Within the assets and liabilities in relation to retirement benefits table, (gain)/loss to be changed to gain/(loss) • Council made payments totalling £2.505m in respect of teachers' pension changed to £2.506m • Property funds figure of £136.536m to be changed to £71.333m • Infrastructure figure of £147.399m to be changed to £212.602m	We recommend that this is adjusted.	✓
Figures within the Narrative Report amended to agree to the figures per EFA	We recommend that this is adjusted.	✓
Related parties Amount disclosed for Bristol Local Education Partnership Ltd amended to £26.4 million. Council to disclose the value of the transactions made with Bristol Food Network as they are material in value to Bristol Food Network	We recommend that this is adjusted.	✓
Additional fees of £114k to be added to their respective sections of the External Audit cost breakdown	We recommend that this is adjusted.	✓
Disclosure note to be added to Note 34 Pensions to reflect potential inaccuracy of roll-forward approach of 2% - 3% per year i.e., 4% - 6% in 2020/21	We recommend that this is adjusted.	✓

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Dwelling numbers within Note 1 of the Housing Revenue Account to be updated as follows: • Number of houses to be changed from 11,214 to 11,285 • Number of flats to be changed from 14,472 to 14,561 • Overall total dwellings to be changed from 26,767 to 26,927	We recommend that this is adjusted.	✓
Senior Officer Remuneration note - The Director of Children and Family Services was omitted from the senior officer remuneration note in the draft accounts.	We recommend that this is adjusted	✓
Banding of employees earning more than £50,000 - Banding £105,000 - £109,999 incorrectly disclosed as 2 employees. The correct number of employees within this band is 1.	We recommend that this is adjusted	✓
Group Senior Officer Remuneration note The disclosure of senior officers within the group was reviewed against the requirements of the audit regulations which details who should be included as a senior officer. It was noted that a small number of the disclosures did not meet the definition and therefore these were removed from the current year and prior year notes.	We recommend that this is adjusted	✓
A number of disclosure updates were made to the narrative report to ensure it was consistent with the information presented in the financial statements	We recommend that this is adjusted	✓
Post Balance Sheet Event disclosure note was updated to include reference to Bristol Energy liquidation after year end.	We recommend that this is adjusted	✓
Note 26 – split out direct revenue contributions and major repairs reserve figures which were shown in total in draft accounts due to the major repair reserves figure being material.	We recommend that this is adjusted	✓
Our 2021/22 audit work on REFCUS identified that the Council has been accounting for REFCUS on a net basis rather than showing the income and expenditure on a gross basis.	We recommend that this is adjusted	TBC

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Group accounts – note added to explain the Bristol Energy accounts were prepared on a break-up basis and not on a going concern basis	We recommend that this is adjusted.	✓
Critical Judgements note – expanded to include details of the values involved where appropriate.	We recommend that this is adjusted	✓
Group revenue from contracts with customers - note updated to reflect £32m of revenue from contracts with customers for Bristol Energy.	We recommend that this is adjusted	✓
Group Movement in Reserves statement - updated to include a total column for Housing Revenue Account totalling the non earmarked and earmarked reserves - updated surplus / defict on provision of services to agree to the group CIES figure - adjustments between group and authority updated to net to zero These adjustments were also made in 2019-20 as well and a prior period adjustment note included	We recommend that this is adjusted	✓
Capital Commitments - New housing provision with Clarion Housing Group Ltd understated by £1.7m - South Gloucestershire Council Flood deference commitment understated by £17.5m - Memo to be added for reader transparency regarding Bristol Beacon and the fact the capital commitment significantly increased in April 2021.	We recommend that this is adjusted	✓
Leases Disclosure - Lease liability figure for 'later than one year and not later than five years' overstated by £3.377m	We recommend that this is adjusted	✓
S31 grants incorrectly classified within non-domestic rates within notes 8, 11 and 17 when they should be classified within government grants.	We recommend that this is adjusted	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
The actuary uses an estimated rate of return to calculate the net defined liability at 31 March 2021. This estimated rate of return was 0.1% lower than the actual full year rate of return. This created an overstatement of the actual return on scheme assets of £3.720m.	£3.720m	(£3.720m)	Not material
Our work on infrastructure assets identified the Council had not used useful economic lives in line with CIPFA's proposed ranges. We identified that using the lives suggested by CIPFA, the council's depreciation charge was £759,000 lower than expected.	£759k	(£759k)	Not material
Note 8 and Note 17 did not reconcile due to a WECA grant that is administered on their behalf by BCC. Identified in line with IFRS 15 that some of these grants should be excluded from the accounts and some should be included on the basis of agency/principal. We identified the following adjustments: Note 8 – Understated by the £1.8m BCC element of the grants Note 18 – Overstated by the £2.6m of passthrough grants	Nil	Nil	Not material
Overall impact	£4.479m	(£4.479m)	

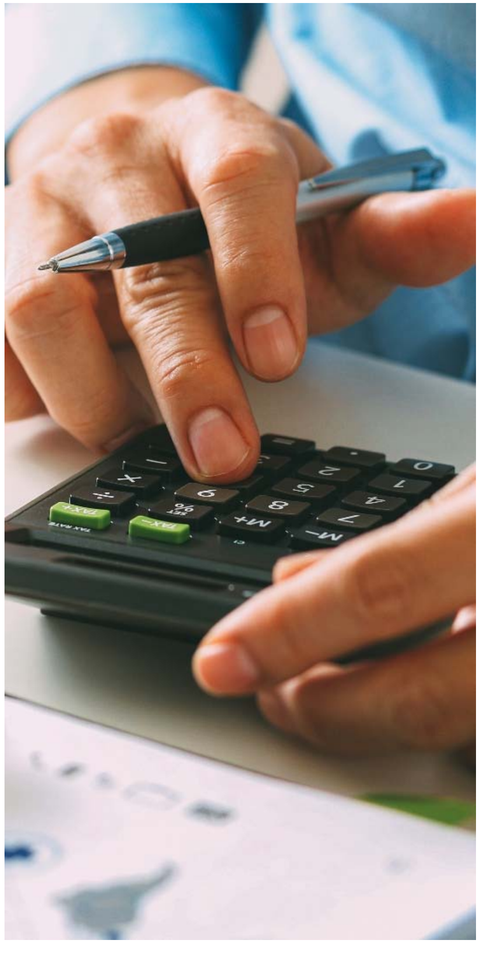
C. Audit Adjustments

Other issues and errors

The table below provides details of other issues identified during the 2020/21 audit that were unadjusted.

Other Unadjusted errors
Management use LINK Asset Services to provide them with fair value calculations of their assets and liabilities which are required for financial instrument disclosures in Note 24. Management also calculate their own Fair Values and use the work of LINK to assess these for reasonableness. LINK's fair valuation of the Council's loans were £1.174m different. Management used their own values rather than LINK's as they were not materially different.
As part of our other land & buildings valuations testing, a number of errors were identified in respect of the valuation calculation. This included calculation of fees and costs of construction. Whilst these errors were trivial individually, we have considered their cumulative effect once aggregated and extrapolated across the population tested. The extrapolated error is a £4.1m projected understatement of the Property, Plant and Equipment balance. As an extrapolate error, we would not expect management to update the financial statements and we obtained sufficient assurance over the full balance from our testing.

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
The actuary uses an estimated rate of return to calculate the net defined liability at 31 March 2020. This estimated rate of return was 0.1% lower than the actual full year rate of return. This created an overstatement of the actual return on scheme assets of £1.7m.	Dr Financing and Investment Income and Expenditure £1.7m	Cr Other Long-Term Liabilities £1.7m	Not material
During review of the Cash Flow Statement, identified £2.1m included within "Other non-cash items charged to the net surplus or deficit on the provision of services" that management were unable to provide evidence for. This is effectively a balancing figure. Impacted the Group Cash Flow Statement also.	N/A	N/A	Not material
Management's valuer had indicated that Council Dwellings had reduced in value by £13.2m from the date of formal valuation in year and 31 March 2020, however management had only reflected £5.1m of this reduction in the draft accounts. Upon review, full reduction was more appropriate to be £6.6m. This left £1.5m unadjusted in the 2019/20 accounts.	Dr Housing Revenue Account expenditure £1.5m	Cr Property, plant and equipment £1.5m	Not material
When reconciling the ledger to the Council's HB system, Northgate, it was noted that the income was understated by £1.6m and expenditure overstated by £1.6m. There is no impact on the net expenditure recorded in the Council's CIES.	N/A	N/A	Not material
Overall impact	£3.2m	£3.2m	

D. Fees

Audit fees	Proposed fee	Final fee
Council Audit scale fee	£156,839	£156,839
Additional Audit fee	£108,500	TBC
2019/20 Objection	£8,500	£8,500
Report on Bristol Energy Governance Arrangements	£30,000	£30,000
Total audit fees (excluding VAT)	**£303,839**	TBC

Non-audit fees for other services	Proposed fee	Final fee
Agreed upon procedures on the Council's Housing Benefit Subsidy Claim 2020/21	£28,000	£25,875
Agreed upon procedures on the Council's Teacher's Pension Return 2020/21	£8,000	£8,000
Agreed upon procedures on the Council's Pooling of Housing Capital Receipts Return 2020/21	£5,000	TBC
Agreed procedures on behalf of Homes England	£6,000	£6,000
Total non-audit fees (excluding VAT)	£47,000	TBC

The total fees per the above analysis is £350,000. This reconciles to the external audit costs disclosed in note 15 within the final statement of accounts.

E. Audit opinion

Our audit opinion will be circulated separately upon completion of the 2020/21 audit.

grantthornton.co.uk