Public Document Pack

Audit Committee

Supplementary Information

The following report is attached:

9.	**External Auditor's ISA 260 report**	**(Pages 3 - 43)**

Audit Committee

21 September 2017

Report of: BDO LLP

Title: BDO 2016-17 Audit Report (ISA 260 report)

Ward: City Wide

Officer Presenting Report: BDO LLP

Contact Telephone Number:

Recommendation

The Audit Committee note, and comment as appropriate, on BDO's 2016/17 Audit Report and the action plan agreed by management.

Summary

Attached to this report is BDO's Audit Report to those charged with governance, which highlights the key issues arising from the audit of the Council's financial statements for the year ended 31 March 2017. This report enables BDO to discharge their responsibilities in accordance with International Standards of Auditing (ISA) 260. It also reports their conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Overall the auditors intend to issue an unqualified audit opinion on the Council's financial statements but a qualified conclusion with regard to sustainable finances. This was as a result of appropriate arrangements not being in place at the start of the 2016/17 financial year to address the budget deficit. Although the auditors recognise measures were implemented to mitigate the overspend during the year.

A number of recommendations have been made to management with regards to improvements required. Management responses to these recommendations will be reported back to the next Committee.

Policy

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. BDO are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements, namely the Local Audit and Accountability Act 2014.

Consultation

1. **Internal**
   BDO has discussed and agreed the findings of the audit with the Chief Executive, the Director of Finance, and the Service Director and with Senior Finance Officers.

2. **External**
   None

Background and Context

1. BDO is required to form an opinion on the Council's annual financial statements and to provide a value for money conclusion. This report sets out the outcomes of the audit of the Council's financial statements and the issues arising.

2. Greg Rubins, the appointed auditor responsible for the City Council's audit will be attending the Committee, and will be pleased to answer Members' questions.

Other Options Considered

Not applicable

Risk Assessment

None necessary for this report

Public Sector Equality Duties

None necessary for this report

Legal and Resource Implications

Legal

None arising from this report

Financial

None arising from this report.

Land
Not applicable

Personnel
Not Applicable

Appendices:
Appendix 1: BDO's Audit Report 2016-17

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:

None

BRISTOL CITY COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2017

21 September 2017

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and expect to provide our audit opinion before the statutory deadline of 30th September, subject to resolution of matters set out in the outstanding matters section below.
Audit risks	We issued our planning report to the Audit Committee in March 2017 and this document contained our initial assessment of the risks that were relevant to the audit. Subsequent to issuing the March 2017 Audit Committee planning document we revised our risk assessment and added the risk of Informed Decision Making and which is part of our use of resources work. We also elevated the risks relating to valuations of property plant and equipment and the valuation of the pensions liability from “normal” risks to “significant” risks. These changes were reported to the June Audit Committee.
Materiality	Our final materiality was calculated at £18.8 million and was calculated using the Council’s gross expenditure for 2016/17.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	See below.
Adjusted misstatements	Our audit identified significant errors in connection with the valuation of the Council’s housing stock which needed to be corrected by management. Management corrected the draft accounts presented for audit in June for the impact of the errors we identified in the valuation used for the Council housing stock which, as in previous years, had been valued at 1 April 2016; however, with the uplift in property values in the region within 2016/17 these should have been revalued using 31 March 2017 values. The significant increase in property prices in Bristol during 2016/17 has meant that the upward movement created an error of approximately £250 million that needed to be corrected. A number of other less significant adjustments needed to be made and these are set out in Appendix 1 and a few presentational changes were agreed during the audit process.
Unadjusted audit differences	The Council did not adjust for two non-material differences that were calculated by extrapolating an error identified within a sample of assets held at fair value at 1 April 2016 which would have resulted in an increase in valuation of £8.7 million if valued at 31 March 2017. In addition, the second adjustment would have led to a reduction in the value of investment properties and the amount would have been £10.3 million. The Council holds an investment in various wholly owned subsidiaries and the increase in the scale of these entities required the preparation of Group Accounts as well as the “single entity” Council accounts. The initial carrying value of the investment in the single entity accounts amounted to £8.4 million (subsequently adjusted to £7.2 million) based on the value of the net assets of the subsidiaries. We believe that the correct treatment is to

KEY AUDIT AND ACCOUNTING MATTERS	
	measure the investment at cost (£15.9 million at 31 March 2017) and then perform an impairment assessment if there are signs that the value should be reduced. While we recognise that it is very difficult to perform an accurate impairment assessment, there is a risk that the value is overstated. We discussed this matter with management and also sought specialist valuation support from within BDO. We have been able to confirm that the valuation of the investment in the subsidiaries is materially correct and set out more detail on page 14 and appendix 1 of this document. The Council has shown the difference in value as a revaluation adjustment to available for sale assets and this does not result in any impact on the surplus/deficit in the year and therefore on the general fund balances. In our view it should be a cost in the year and that would reduce general fund balances by £6.7m (£15.9m cost, less £2m waste company costs, less £7.2m for the energy company). This is not material this year but may become so in future years if the losses of the energy company continue.
Control environment	The errors identified in the valuation process for PPE, investment properties and housing stock indicate that attention needs to be paid to ensuring correct valuations are in place by year end particularly when property values are in a period of significant change. The importance of ensuring accurate information is available promptly at year end is emphasised by the move to a faster accounts close in 2017/18 where the deadline for issuing the audit opinion will be brought forward to 31 July 2018. We have also raised some control points on the severance package awarded to the City Director in 2016/17.

SUMMARY

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable Finances	In February 2014, the Council approved the medium term financial strategy covering the period from April 2014 to March 2017 and 2016/17 represented the third and final year of the approved three year framework. At the beginning of the year, the Council had a savings target against the Change Programme of £34.7m, which included £15.2 million of undelivered savings carried forward from 2015/16. A range of management and strategic activities were undertaken which resulted in savings being delivered but not at the level implied by the 2016/17 budget and in overall terms a deficit of approximately £10.5 million against budget was incurred. Consistent with many local authorities significant pressures are present within Social Care, largely attributed to the increase in client numbers, complexity of need, demand for Council services and higher than expected market pricing (eg year-end overspend in the People directorate of £13.9m). In January 2017, a moratorium / spending freeze was introduced on non- essential, statutory or grant funded activity to seek to contain the pressure within available resources without the need for draw down from the Council's emergency general fund reserve. The Council ended the 2016/17 financial year with an overarching general fund overspend of £10.5m. The ability to re-designate some earmarked reserves meant that no call was made on the General fund balance, which remained at £20m and represents approximately 5% of net revenue spending. This amount would reduce by £6.7m if the adjustment we refer to in the previous section was made. To help ensure that the financial position remains sustainable throughout the medium term, the Council has acted to strengthen its arrangements. In particular, we note the progress made in implementing the Delivery Executive Group comprising the Mayor, the Chief Executive, the Director of Finance and the Deputy Mayor to oversee the transition. This has been an important step in overseeing the financial position as the savings target for 2017/18 has been agreed at £33.1 million with further savings proposals with an aggregate value of £29 million identified for the four year period to 31 March 2022. It is clear that appropriate arrangements were not in place at the start of 2016/17, as evidenced by the large overspend that emerged in the year. Also, despite the steps being taken, the Council's financial position remains very challenging, as evidenced by £3m of savings targets being viewed as `at risk' in the first quarter of 2017/18. We have therefore qualified our conclusion in respect of sustainable finances.
Informed decision making	The Bundred report commissioned by the Mayor and published in February 2017 concluded that the Council's arrangements for monitoring its financial position, including reporting to Members, had not been adequate in the early part of 2016/17. The inadequacy of the arrangements was a key factor in the failure to fully appreciate the Council's financial position was significantly adverse compared to budget until several months into 2016/17. In line with the Council's agreed reporting cycle, quarterly budget monitoring reports were produced with the first quarter report being considered by Cabinet in September 2016. The report clearly outlined the seriousness of the General Fund financial position of £29.1m forecast outturn deficit; provided detailed, explanations and proposed a series of work streams for consideration in addressing the shortfall. The month 7 report (covering the

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
	period to 30 October 2016 and presented to Cabinet in January 2017) identified a small reduction in the variance (down to £27.5 million). The frequency of budget monitoring reporting to Cabinet was increased to monthly and the style, content and depth has continued to be reviewed and enhanced. Governance and due diligence was increased around the savings programme and this simultaneously has been subject to continuous review and improvements implemented where appropriate. We note the steps taken to improve the arrangements and believe that significant improvements have been made. However, it is also clear that acceptable arrangements were not in place throughout 2016/17 and accordingly our audit conclusion has been qualified.
Governance of Council subsidiaries	The companies group structure (Bristol Energy, Bristol Waste Company, both subsidiaries of Bristol Holding Ltd) was established during 2015 with a Board of Directors, Independent Chair, Non-Executive Directors and with the Council being represented on each board. The Council has a 100% shareholding in the group, and the Shareholder representative, for the purpose of making decisions reserved to the Shareholder is the elected Mayor of Bristol. The Mayor is supported in his decision making by a small Shareholder Advisory Group. Independent Shareholder Advisors have been commissioned to provide timely advice on how the governance arrangements for the group could be improved. Bristol Energy opened for business in 2016 and operates in a commercial and volatile marketplace. Energy supply is a complex business and it is in its start-up phase of acquiring and retaining customers whilst maintaining social purpose and as such will always be subject to external influences and risks. Following inception the market had changed and as a result greater than expected losses would be incurred. An assessment was undertaken of the current and forecasted position and impact reflected in the first annual Business case refresh. As the companies grow steps have been taken to improve the governance and quality of performance reports. The business plan was revised to reflect in-year and forecasted conditions and increased investment required from the Council as it develops and grows its market share and brand. Given all of the points above external consultants have also been commissioned to provide financial and commercial advice to optimise value in the delivery of the Council's investment and ensure that the Council achieves the best value for money outcome. We have discussed with management how the decline in value of its investments should be reflected in the accounts and have raised suggestions for ways in which governance of the companies can be improved, for example through greater scrutiny by the Audit Committee and internal audit. We have reflected these points in our conclusion on informed decision making.

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 8, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Annual governance statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.

AUDIT OPINION	
Use of resources	We anticipate issuing an adverse conclusion on the use of resources for the year ended 31 March 2017. The basis for the adverse conclusion is that the Council did not have proper arrangements in place for making informed decision making throughout 2016/17 and particularly the early part of the year. There was a failure to inform the elected members that the Council's net expenditure was significantly higher than budgeted and an accurate position was not made available until more than six months of 2016/17 had elapsed. The Council approved its 2016/17 budget which included provision for achieving a savings plan of £35 million and which was not achieved and the Council incurred a deficit of £10.7 million. We also have some concerns over the financial performance of the energy company owned by the Council. We note the considerable progress that has been made to address the position and also the development of a new medium term plan which was finalised in July 2017 and covers the period to 2022. There is also now much greater stability in the senior management team, with permanent appointments in place for the key roles of Chief Executive and Director of Finance, although the Chief Executive has recently announced her intention to leave. We are satisfied that Members now receive regular, detailed budget reports that provide information on progress, variance against plans and corrective action already underway or planned. This approach provides members with the opportunity to scrutinise and challenge financial performance effectively and to hold lead members and officers to account. However, we have concluded that despite the significant steps taken in the latter part of 2016/17, the Council did not have proper arrangements in place covering both sustainable finances and informed decision making which represent the reasons why it is necessary to issue an adverse opinion in respect of these matters and an overall qualification on the Council's use of resources.

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OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the financial statements.
Legality and objections	We have prepared a draft response that states that we are not minded to uphold the objection from 2015/16 on the Council's LOBO (Lender Option Borrower Option) arrangements, as the Council appears to have acted legally and within its Treasury Management guidelines when taking out the LOBOs.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Audit certificate	We will issue our audit certificate after we have completed our work on the financial statements, use of resources and whole of government accounts and have formally finalised the objection from 2015/16.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

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

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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

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

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

AUDIT QUALITY

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

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

OUTSTANDING MATTERS

We have substantially completed our audit work for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources.

The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit Committee meeting at which this report is considered:

1 Completion of our work in connection with the property assets that have been revalued

2 Internal quality control review process

3 Subsequent events review

4 Final review and approval of the financial statements

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

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks as identified in our Planning Report issued in March 2017 and the subsequent update to our audit plan communicated to the Audit Committee in June 2017. This update included the rationale for elevating the risk of valuations of property, plant and equipment (including investment properties) and valuation of pension assets and liabilities to significant. In our update, we also identified the risk of Informed Decision Making as a significant risk following an independent review commissioned by the Council in October 2016 and which reported in February 2017 when it became evident that the Council was facing a substantial budget deficit in 2016/17 that was not communicated to members until after several months of 2016/17 had elapsed.

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	**Management override of controls**	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	Our response to this risk included: • testing a sample of journal entries and other adjustments recorded in the general ledger to prepare the financial statements • reviewing accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Our audit work in relation to journals has not identified any significant issues. We have not found any indication of management bias in accounting estimates. No unusual or transactions outside of the normal course of business were identified.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	**Revenue recognition**	Under auditing standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance criteria and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).	We tested a sample of grants subject to performance criteria and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.	No issues arising from this work.
3	**Financial Pressures**	The Council is experiencing a very difficult financial position due to budget pressures and difficulty in achieving its previous savings plans. It is forecasting a deficit for 2016/17. The Council has approved a revision to its Minimum Revenue Provision (MRP) calculation and in 2016/17 will calculate the MRP using a different basis from that used in 2015/16. Councils do have discretion in selecting the basis for calculating its MRP with an overriding requirement to ensure a prudent approach.	We focused on the significant estimates and judgements that could influence the Council's financial position at year end. In particular, estimates and judgements that impact materially upon the Council's general fund balance, such as use of provisions, were subject to increased scepticism. We reviewed and challenged the revised basis for calculating the MRP and assessed the approach adopted by the Council.	No issues arising from this work. We reviewed the basis for calculating the MRP for 2016/17 and concluded that it was acceptable. The charge is 2% per annum, which is in line with repayment of debt over 50 years and the average life of the assets being supported by borrowing. In addition, the Council's legal advice is that the changes are permissible. We note that further changes are planned in 2017/18 to commence writing back MRP that was charged in excess of the new basis in years prior to 2016/17. The impact of moving to the new basis of calculating brought a reduction in MRP of approximately £4 million.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Land, buildings, dwellings and investment property valuations**	Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The Council operates a rolling valuation programme to ensure that all properties are valued at least every five years. We consider there to be a risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.	We reviewed the instructions provided to the valuer and confirmed the valuer's qualifications and experience in order to determine whether we could rely on the management expert. We will review the valuation performed and test a sample of assets to confirm the valuation has been correctly accounted for.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work. The valuations for housing properties were performed at 1 April 2016 and not at the year end. If house prices in Bristol had been reasonably static, this would not have led to a material error in the accounts. However, Bristol housing property increased significantly in 2016/17 and therefore the valuation needed to be updated to reflect values at 31 March 2017. The revised valuation has been used to prepare the Council's accounts and the draft accounts that were previously approved and placed on the Council's website have been corrected. The impact of this adjustment has been to increase the balance sheet value of the Council's housing by approximately £250 million. There is also an impact on the 2015/16 accounts, as the same method has been used in previous years, resulting in a prior year adjustment. We have set out for the Council the level of detail we expect to see for a prior year adjustment. For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	**Pension liability assumptions**	The Council's pension liability comprises the Council's share of the market value of assets held in the Avon Pension Fund less the estimated future liability to pay pensions. The pension fund liability is calculated by actuaries with specialist knowledge and experience. The calculation uses membership data held by the pension fund and uses factors such as mortality rates and expected future pay rises to calculate the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions.	We agreed the disclosures to the information provided by the pension fund actuary. We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary. We obtained confirmation from the Pension Fund auditor about aspects of the valuation of the pension fund assets and liabilities. This showed that the assumptions used were within an acceptable range.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	**Changes in presentation of the financial statements**	The Code requires a change to the presentation of some areas of the financial statements. This includes: • change to the format of the Comprehensive income and Expenditure Statement (CIES) • change to the format of the Movement in Reserves Statement • new Expenditure and Funding Analysis (EFA) note • change to the Segmental Reporting note • new Expenditure and Income analysis note. These changes will required a restatement to the 2015/16 CIES.	We reviewed the draft financial statements and checked these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.	We confirmed that the analysis by service in the CIES is consistent with the internal reporting within the Council. We reviewed the restatement of the comparative 2015/16 information to ensure that it was presented consistently with the current year basis.
7	**Consideration of related party transactions**	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.	We tested related party transactions and reviewed relevant information concerning any such identified transactions. We discussed with management and reviewed councillors and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is also an area we have required you to include in your management representation letter to us.	No issues arising from this work.

8	**Group Accounts**	The Council has interests in a range of different external organisations including some wholly owned subsidiaries. In 2015/16 these were not sufficiently material to require the Council to prepare Group Accounts. In 2016/17, the scale of the transactions and the size of the investment increased to the extent that they became a material element of the Council's operations and required the preparation of Group Accounts to consolidate the accounts of its subsidiaries.	We reviewed and challenged the paper that is prepared by management to support the approach for accounting for the Council's subsidiaries. We agreed with management that group accounts were required. We obtained information from the auditor of the subsidiaries to enable us to confirm that the auditor was independent of the subsidiaries and that we could rely on their work. We received audited accounts for each subsidiary that we were able to agree the Council's figures in the Group Accounts.	We reviewed the consolidation of the accounts and the information from the subsidiary auditor. No issues arose from this work. The draft accounts were prepared on the basis that the balance sheet value of the investment should recognise the net assets of the subsidiaries. This valued the investment at £8.4m but has subsequently been revised to £7.2 million. We consider that the correct treatment is to include the value of the investment at cost and if appropriate, assess whether the value should be impaired.Since being formed, Bristol Energy has incurred significant losses and therefore these losses indicate the potential need to impair the value of this investment. The cost of the investment by the Council is £15.95m, of which £2m relates to Bristol waste, which is profitable and has built up reserves of £4m. Bristol Energy has made large losses to date but has built up a customer base and our valuations team have agreed that, based on current and expected customers and cash flow predictions, a valuation of £7.2m for the company is within an acceptable range. This would, however, result in a total company valuation of £9.2m and therefore an impairment of £6.7m should have been made against service costs and the general fund balance. This has not been adjusted by management and is therefore included as an unadjusted error in Appendix 1. Although not material this year, there is a risk that this difference could become material in future years if the losses in the energy company continue. We therefore recommend that management review their accounting treatment on this issue. We have set out more detail about this valuation in Appendix 1.

9	**Non-domestic rates appeals provision**	The Council is required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled. We consider there to be a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.	We reviewed the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate. We monitored progress with the potential rate relief claims from NHS organisations and the potential impact on the collection fund account.	No issues arising from rate appeals. The NHS appeal has been denied by the Council after legal advice and this is in line with the action taken by other local authorities. The accounts disclose a contingent liability of £27m if this was successfully contested. This disclosure is reasonable.
10	**Allowances for non-collection of receivables**	The estimate is based on the aged debtors listing for each type of debtor. The provisions are calculated based on a percentage of debt by age for each kind of debt. However recovery percentages are based on past collection rates and other experience i.e. those debts which are traditionally very difficult to collect are assigned a higher provision rate. If recovery rates go down, then provision may not be high enough.	We reviewed the provision for significant income streams and debtor balances to assess whether it appropriately reflected historical collection rates by age of debt or arrears.	We identified no issues with this balance.

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
11	Lender Option, Borrower Option (LOBOs) loans	On 26 July 2016 we received an objection from an elector relating to the Council taking out £130m of LOBOs between 2004 and 2012. The wording of the objection was consistent with those sent to other Councils in 2016/17 and questioned the legality and value for money of the transactions. This is because the Lender Option Borrower Option loan rates, while attractive initially, can be increased by the lender at specific intervals, although the borrower can repay the debt at that point. Legal advice has been provided to one of the audit suppliers, which we are unable to share, that indicates LOBOs should be treated as a variable loan and not a fixed loan. The advice also states that Councils are within their powers to take out LOBOs. In addressing this issue we have sought to assess whether the Council has complied with its Treasury Management policy (including limits on variable debt), has adequately assessed and reported the risks of the loans and that it has reviewed whether the loans represent value for money. Our work has been hampered by the age of some of the loans, which mean that some original documentation is not available and also delays by the Council in responding to our queries. We have now been able to conclude the following: • The Council did not breach its Treasury Management guidelines for the period we have been able to review, ie the last 7 years. The limit on variable debt was 30% of total debt and LOBOs (and other variable debt) was lower than 30% each year • There has been regular reporting to Members on borrowing risks and the nature of LOBO debt was explained to Members. This could have been documented more clearly in the papers, with some sensitivity analysis. We have not been able to confirm what was reported in 2004 and 2005, which represents 50% of the total debt. • The Council has provided a briefing to Members, with supporting analysis that shows it has saved £5.5m in interest payments as a result of taking out the LOBOs. Therefore value for money appears to have been achieved. Overall, our provisional view is that there is sufficient evidence not to uphold the objection and we will be writing to the elector accordingly. This is subject to review by the National Audit Office and its legal advisors. We do recommend that a more detailed risk assessment and sensitivity analysis is performed in future if loans of this nature are entered into. Once we have approval from the NAO we will be able to issue the completion certificate on the 2015/16 audit. This will refer to prior year adjustments that have been made in 2016/17 that relate to the 2015/16 year.

OTHER REPORTING MATTERS

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

	MATTER	COMMENT
12	The draft financial statements, within the Statement of Accounts, were prepared and provided to us for audit in accordance with a pre-agreed timetable and by 31 May. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	The deadline for the Council to approve place its draft accounts was 30 June 2017 but this deadline will be brought forward to 31 May in 2018. The audit deadline for the 2017/18 accounts will also be brought forward to 31 July 2018. This compares to the deadline of 30 September 2017 for the current (2016/17) audit. To help prepare for the accelerated timetable that will be in place next year, we agreed with management to take the opportunity to bring forward elements of the 2016/17 audit work. In particular, management identified a target date of 31 May 2017 for preparing the draft accounts and early date for preparing the draft accounts was met. We identified some issues with the accounts in connection with the valuations of housing properties that meant that the revaluation needed to be re-performed and therefore delayed our audit work. The original valuation (based on 1 April 2016 values) was materially incorrect because house prices in Bristol have increased significantly and this therefore affected the valuation for the Council's housing stock. In addition, the Council's interests in its subsidiaries were deemed to be material for the 2016/17 accounts (in 2015/16 they had been calculated to be immaterial) and this meant that the Council needed to prepare Group Accounts consolidating the results of the subsidiaries as well as the accounts for the Council as a single entity. The requirement to prepare Group Accounts required both the Council and BDO to obtain detailed information direct from the subsidiaries and also their auditor. This identified a number of issues which caused delays. It is hoped that having now effectively gone through the process in 2016/17, the requirements from all parties are much clearer and will speed up the process in 2017/18. As part of this process, the Council will need to address the issues we raise in this report about the valuation of property and its investment in Bristol Holdings.

	MATTER	COMMENT
13	We are required to review the draft Annual Governance Statement and be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report.
14	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	We have no matters to report.

CONTROL ENVIRONMENT

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

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

SIGNIFICANT DEFICIENCIES (NB: significant by profile)

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Chief Executive salary and severance payment	The City Director, who left the Council at the end of July 2016, was made Chief Executive of Bristol 2015 Ltd during the year and paid for the role, without any impact on her Council salary. These were exceptional circumstances and the Council took legal advice before agreeing the role. The Council believed that she was still able to fulfil her role at the Council but in our view it would have been advisable to take account of the impact on her available time and potentially net the additional sum from her Council salary. The Council took legal advice on the severance payment to the City Director, which is good practice and value for money appears to have been adequately considered. We confirmed that no years were added to the pension. However, it would have been good practice to present a fuller report to Members of the HR Committee on the costs of the package and any other options available.	The Council has not acted unreasonably in its approach to these sensitive issues. However, the Council should ensure it follows best practice in its governance arrangements, including payments made to senior staff.	Where a senior member of staff takes on additional roles with other organisations, the impact on their existing roles should be assessed and the implications for their Council salary considered. When presenting information on severance arrangements for senior staff, the Council should ensure that the appropriate Committee is given sufficient detail on the costs and alternative options, while taking into account confidentiality requirements. More detailed guidance is provided in the Audit Commission report: By Mutual Agreement – Severance Payments to Council Chief Executives in 2010	The Council adopts the principles outlined in the Joint Negotiating Committee (JNC) for Chief Officers of Local Authorities, model procedures and non-contractual payments e.g. Ex gratia, severance referred to the Human Resources Committee for consideration. The matters referred to here are of an exceptional and sensitive nature and as such the Council's response is limited. The Council sought appropriate legal advice on all counts which informed the approach adopted and negotiations regarding the severance package.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
15	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Authority for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017 and our review of the Council's WGA Data Collection Tool (DCT) is in progress. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Council's financial statements. We expect to issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline.

USE OF RESOURCES

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

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

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

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

We reported our risk assessment, which included use of resources significant risks, in the 2016/17 Audit Plan that was presented to the Audit Committee in issued in March earlier this year. Subsequently, we performed a more detailed assessment and in June 2017 prepared an update report for the Audit Committee in June 2017 that set out the areas that had been revised since our initial risk assessment. The changes included elevating the risks around land and property valuations from normal risk to significant and also introducing the risk of Informed Decision Making as a new significant audit risk.

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

Key: ■ Significant risk ■ Normal risk

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	We identified the risk of sustainable finances as a significant risk and the need for the Council to address a major funding shortfall. The funding shortfall to 2020 had been set out in the Council's February 2016 Medium Term Financial Strategy (MTFS) and which identified a savings programme generating a £35.4 million reduction in 2016/17 net expenditure. For 2016/17, the Council set a budget with a net spend (i.e. expenditure net of income) of approximately £346 million. The budget implied significant reductions in costs in many areas as part of a Corporate Plan designed to ensure that costs are managed within forecast reductions in grant income and demand pressures. During the year it became evident that the Council was not achieving the level of savings that were implied by its budget and the S151 officer reported to the Cabinet in January 2017 that (based on performance to 31 October 2016), the Council was forecasting an adverse variance against budget of approximately £17.8 million. The Council has also received an independent report on its financial position, which has highlighted weaknesses in the development, management and reporting of its savings programmes. In addressing this risk we reviewed the MTFS that had been prepared in February 2016 and assessed the outturn position. We have also considered the Council's use of balances including the unplanned draw upon reserves to address the failure of the savings plan to deliver the savings implied within the 2016/17 budget. We have also met with senior management to determine how the Council has developed its new medium term financial plan covering the period from 2017 to 2022 and considered the arrangements that have been put in place to address the funding shortfall that the Council faces.	The Council's 2016/17 budget assumed delivery of a savings plan designed to deliver a reduction in net expenditure of £35.4 million. During the year, it became evident that the Council was not going to achieve its budget due to many of the planned savings appearing to be at risks and emerging services pressure primarily attributed to Social Care demand and pricing. In November 2016, the Interim Chief Executive issued a Management Instruction to cease all non-essential spending including any proposed expenditure that was not contractually committed or necessary to meet a legal requirement. The emergency measures did have some effect and the forecast deficit of £17.8 million (as at Period 7; October 2016) was reduced to the actual deficit of £10.5 million in 2016/17. The 2017/18 budget approved by the Council in February, contained proposals to invest and re-baseline directorate budgets to the total value of £45m. This budget, if achieved, will continue the process of establishing a sustainable position for 2017/18 and beyond. In comparison with other local authorities that we audit, the Council does have reasonably strong balances. For example, the General Fund balance has been maintained at £20 million and also its useable HRA related reserves have been maintained at approximately £63 million. In overall terms, the Council's useable reserves (many of which are restricted in how they may be used) reduced significantly in 2016/17 by approximately £40 million to £203 million. Therefore while not an immediate matter for concern, given the pressures on costs combined with reduced levels of government grant, means that this area is under increasing pressure and it is important that net expenditure is brought into line with available funding. The Council has strengthened its internal financial reporting and in July 2017 issued a new Medium Term Financial Plan (MTFP) covering the period to 2022. The immediate challenge is for the Council to achieve savings of £33 million in

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)		2017/18 and this target is supported by a list of savings proposals that have been approved by the Council and each item allocated to a senior manager who is accountable for delivering the savings proposal. In 2017/18, the Council has made reasonable progress towards achieving its savings target but at 30 June 2017, its routine financial monitoring report indicates that approximately £3 million of the 2017/18 planned savings are "at risk" and the Council is facing a shortfall of approximately £3 million against the £33 million target for the year. It is therefore evident, that more work needs to be done to strengthen the arrangements before they can be considered adequate. While the Council has made significant improvements to its financial planning in 2017, these improvements were not in place in the early part of 2016/17 and the Council still has a large gap to address to achieve a sustainable financial position. We have therefore concluded that arrangements were not adequate in this area throughout 2016/17 but also acknowledge that the arrangements have been subject to significant improvement in 2016/17 in order to address historic issues.

2	Informed decision making	In our Audit Plan, we identified the risk of sustainable finances as a significant risk. In particular, the need for the Council to address a funding shortfall is a major task and increases the pressure that will arise when making judgements about estimates that will need to be included in the accounts. We had already planned to review the Council's response to the Bundred report and ascertain whether appropriate action has been taken to address the weaknesses identified in respect of the savings plan. We have added as a significant risk the need to ensure that Council members are appropriately informed, and with accurate information, to enable them to effectively oversee the savings programme. To assess the arrangements, we met with management and members, reviewed key documents including the 2017/18 savings plan approved by the Council and the arrangements in place to monitor progress against delivery of the savings in 2017/18. We have also considered how important areas such as the control of the Council's subsidiaries were also reflected in the information provided and assessed by members.	The Council was slow to appreciate that the savings programme of £35.4 million implied by the February 2016 MTFS and factored into the 2016/17 budget was not delivering the budgeted level of savings. There was therefore a six month period before the difficulties were fully appreciated by all members and it was not until January 2017 (when the figures for the seven month period to 30 October 2016 were reported) and a more accurate and detailed assessment of the position post planned mitigations was provided to all members. In February 2017, the Council received the independent report prepared in connection with the Review of the 2016/17 Forecast Deficit (the Bundred Report) and this contained many observations in connection with the original assessment of the achievability of the £35.4 savings plan and the management and governance arrangements in connection with the savings implied by the Council's 2016/17 budget. Recommendations were made designed to strengthen financial control arrangements and ensure that members are properly informed with accurate information on a regular and timely basis as all of these areas were identified as being in need of significant improvement. The Bundred report also recognised that a number of improvements had already been made. The Council accepted the Bundred Report and has taken further steps to address the matters raised. We note the significant improvements that have been implemented such as improved reporting, the decision making pathway for member engagement from idea to implementation and since January 2017 the introduction of a very senior group of staff and members who routinely assess performance against the Council's approved savings plan. In addition, a new medium term financial plan has been prepared, which was approved in July 2017 and was designed to ensure greater alignment of resources with strategic priorities and buy-in from senior managers with responsibility for delivering the budget. We have concluded that arrangements for ensuring informed decision making were not adequate throughout the year and this is reflected in our conclusion on the Council's use of resources.

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RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
3	**Governance arrangements for the Council's subsidiaries.**	The Council has recently created Bristol Holding Limited (BHL), a company which has two wholly owned subsidiaries, Bristol Waste Company (BHC) and Bristol Energy & Technology Services (Supply) Limited (BEL). We considered the scale of the companies for the purposes of preparing Group Accounts as part of our 2015/16 audit and also considered the disclosure from a related party transactions disclosure perspective. The scale of the companies was planned to increase and therefore the financial performance of the companies will increase in importance. As forecast, the scale of the subsidiaries (in aggregate) increased to the point where the amounts involved became material to the Council's accounts and group accounts needed to be prepared (see our comments in the section in Key Auditing and Accounting Matters for comments in connection with this area). From a governance perspective, we discussed with management the arrangements in place which include the three companies being the subject of monitoring arrangements overseen by a shareholder group reporting to the Mayor. In addition, each of the three subsidiaries provides a signed letter to provide assurance regarding internal governance for the Council's Annual Governance Statement.	The Council has created shareholder group to oversee the investment that it has made in its three subsidiaries, manage matters reserved to the shareholder and it meets regularly to monitor performance of these entities. From a financial perspective, Bristol Waste has performed profitably since incorporation in 2015 and at 31 March 2017 had delivered profits of approximately £2 million per annum in its first two years of trading and which was reasonably in-line with the Company's business plan. Bristol Energy has not performed in line with its original 2015 business plan. Losses have been incurred in both of its first two years of operation and these losses have significantly exceeded the amounts implied by the 2015 Business Plan. The 2015 business plan also showed the Company making annual profits from 2018/19. The business plan for Bristol Energy was updated in November 2016 to reflect the more difficult trading environment that the Company was experiencing. The new business plan contained a forecast that showed the Company will continue to make losses beyond 2018/19. We reviewed minutes of the shareholder group meetings and also the annual governance statements prepared. We are satisfied that the arrangements are now appropriate although the need to significantly revise the business plan for BEL is a concern. Energy supply is a complex and volatile business. We have some concerns that the risks around the Energy company, its governance arrangements and greater than expected losses were not understood fully by the Council in the early part of 2016/17. Greater involvement is required by the Audit Committee and internal audit to ensure arrangements are adequate. Independent Advisors and external consultants have been commissioned to provide advice on how the governance arrangements for the Group could be improved and financial and commercial advice to optimise value in the delivery of the Council's investment and ensure that the Council achieves the best value for money outcome.

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
4	**Partnerships**	The Council continues to work with external partners and works closely with several including NHS Bristol CCG. As with any partnership arrangements there are risks around governance and control and value for money.	The Council continues to participate with many external organisations and working with others is a key element of the Council's strategy. We have reviewed minutes relating to partnership working and discussed arrangements with officers and have not identified any issues in this area.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider.

This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES.

We identified the following material misstatements in the draft financial statements, which management has amended:

- Corrected valuation of Council housing which increased the valuation at 31 March 2017 by £250m
- Corrected Investment Property valuation of £5.3 million.
- Investments in subsidiaries reduced to £7.2 million from £8.4 million.
- Debtors reclassification of £3 million (transfer within debtors)
- Reclassification of Local Authority Mortgage scheme asset as a short term investment instead of as a debtor.

UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit work as follows:

- Property, plant and equipment value understated by £8.7 million (extrapolated error).
- Investment property value overstated by £10.3 million (extrapolated error)

The net impact of the unadjusted differences is £1.6 million overstatement of assets with no impact on income and expenditure.

We also bring to your attention the fact that the Council’s investment in its subsidiaries is carried at £7.2 million and which is calculated on the basis of the net asset value of the subsidiaries. The method employed to value the investment is not in line with accounting guidance but we are satisfied that the actual amount is materially correct. However, we would expect the difference between cost and valuation (£6.7m) to be a charge against expenditure in the year and therefore to reduce general fund balances by that amount.

You consider these unadjusted differences to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

PRIOR YEAR ERRORS CORRECTED

In our updated risk assessment we elevated the audit risk around valuations and this identified an issue with the Council’ s housing property valuation and which is referred to above. This also affected the 2015/16 accounts where the previous valuation of £893 million needed to be increased to £1,227 million and affected the Council’s 31 March 2016 balance sheet.

The Council’s investment in Bristol Port was also corrected to be held at cost of £2.5 million as there was judged to be no reliable basis for accurately valuing the market value of the shareholding (previously it had been held at a percentage of net assets of the Company and the 31 March 2016 value carried at £23.7 million).

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have identified recommendations from our use of resources work and also identified a small number of controls and accounts related issues that are set out in the tables below.

Use of Resources	
Recommendation	**Management Comment**
The 2017/18 year to date financial monitoring arrangements indicate that the Council has an adverse budget variance of approximately £3 million at 30 June 2017. This variance therefore indicates that more needs to be done to strengthen the budgetary control arrangements. Accordingly, this area must remain an area of key focus.	
The arrangements that the Council has developed to ensure clear and effective financial monitoring should kept under review. Feedback from the different member groups should be obtained to ensure that the reports provide the information that is needed in an appropriate format.	
The oversight arrangements for the subsidiaries, including the role of the Council's Audit Committee in overseeing the subsidiaries, should be reviewed. In particular, the Audit Committee needs to have oversight of these operations which are increasing in scale and complexity. Internal Audit should also include within its remit the review of the Council's subsidiaries activities.	

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Controls and accounts related areas	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
The process for deleting access rights for staff who leave the Council's employment needs to be made clearer. This recommendation is applicable to many of the Council's applications.	Potential unauthorised access	Access rights to IT systems need to be removed for leavers.			

Controls and accounts related areas	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
For the Selima application, there is a need to strengthen the arrangements for approving and signing off changes to access to the system.	Potential inappropriate access by staff	Formalise the change arrangements and ensure approvals are held on file.			
Within our report we refer to the large adjustment required to housing property valuations due to the valuation being done as at 1st April 2016.	Potential material area	The Council should in future perform valuations of all assets as at 31st March or prepare evidence to demonstrate that a different date does not have a material impact			
The Council has not charged the loss in value of its interests in Bristol Holdings to expenditure in the year.	Potential distortion of service performance and general fund balances	The accounting treatment of the Council's interest in Bristol Holdings should be reviewed and further evidence provided if the Council maintains this should not be a charge against expenditure.			

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£18.8 million	£19.1 million
Clearly trivial threshold	£376,000	£382,000

APPENDIX IV: INDEPENDENCE

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

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively. No member of your audit team has worked on this audit for more than two years.

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We have set out in Appendix V full details of the fees that in connection with our appointment. Other than fees in connection with our statutory appointment which is regulated by PSAA, other fees relate to audit related services such as the certification of grant claims and auditor certification of returns such as the Teachers' Pensions Contributions statutory return. We have not identified any potential threats to our independence as auditors.

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

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	EXPLANATION FOR VARIANCES
Code audit fee	£231,800	£203,687	LOBOs, Group Accounts and additional work on valuations which have required additional work. This includes a fee of £10,000 for the objection to LOBO's which was agreed in 2015/16
Housing benefits subsidy claim	£20,427	£20,427	Fee estimate only as work is in progress
TOTAL AUDIT AND CERTIFICATION FEES	**£252,227**	**£224,114**	
Reporting on government grants:			
• Other			
Fees for other non-audit services			
NON-AUDIT ASSURANCE SERVICES	**nil**	**nil**	
TOTAL ASSURANCE SERVICES	**£252,227**	**£224,114**	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED PAPER

BDO LLP
Bridgewater House
Counterslip
Bristol
BS1 6BX

…… September 2017

Dear Sirs

Financial statements of Bristol City Council for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2017 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

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

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

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

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

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

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

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

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

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

APPENDIX VI: DRAFT REPRESENTATION LETTER

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

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

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

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

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

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

Yours faithfully

[Name]

[Title]

<Chief Finance Officer>

[date]

[Name]

[Title]

Signed on behalf of the <Audit Committee>

[date]

FOR MORE INFORMATION:

Greg Rubins
Engagement lead

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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