



BRISTOL CITY COUNCIL
Annual Audit Letter 2008-09

December 2009

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1 Introduction and key messages

Purpose of this letter

- 1.1 This annual audit letter summarises the key issues arising from the work that we have carried out at Bristol City Council ('the Council') during our 2008-09 audit. The letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 This letter has been prepared in line with the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).
- 1.3 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission. Our work considers the Council's key risks when reaching our Code of Audit Practice conclusions.
- 1.5 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

What this letter covers

- 1.6 This letter covers our 2008-09 audit, including key messages and conclusions from our work in:
- auditing the 2008-09 financial statements (section 2); and
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (section 3).
- 1.7 We have not repeated the recommendations agreed with the Council during the year in this letter. A list of the reports that contain these recommendations can be found at appendix A.

Key messages for the Council

- 1.8 We issued an unqualified audit opinion on the Council's financial statements. Our audit work identified a number of adjustments, these primarily related to the valuation of the Council's asset base and the recognition of debtors for housing benefit overpayments. We have identified some improvement opportunities to improve the quality of its financial statements. The Council's finance team continues to respond positively to recommendations arising from our work.
- 1.9 We issued an unqualified audit opinion on the Council's arrangements to secure value for money. For 2009-10, the Council needs to build on its use of resources scores and increase the focus on demonstrating clear outcomes. The following actions should be considered to improve arrangements further in 2009-10:
- increasing the focus on outcomes throughout the organisation, rather than just the processes;
 - demonstrate value for money (VFM) and improved efficiencies across the Council;
 - a thorough review of the accounts, incorporating consistency checks, should be undertaken prior to the accounts being approved and presented for audit;
 - develop outcomes based commissioning throughout the Council, both internally and externally, which delivers improved outcomes and value for money as a result; and
 - develop and agree with partners effective, joint risk management arrangements.
- 1.10 The context for these key messages can be found in this letter and management has agreed to implement our recommendations in these areas.

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008-09 accounts on 28 September 2009, in accordance with statutory timescales. Our opinion confirms that the accounts for the Council present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (which was agreed to be the Audit Committee). We presented our annual report to those charged with governance to the Audit Committee on 25 September 2009 and summarise only the key messages in this letter.

Audit of the accounts

- 2.3 The Council's finance team engaged well with us throughout the audit process. Whilst the Council has addressed a number of actions arising from the previous year's audit, a number of significant audit adjustments were required to the 2008-09 accounts, in particular relating to the valuation of fixed assets and the valuation of debtors relating to housing benefit overpayments. The key actions identified from our work are set out below:
- arrangements should be put in place to ensure that the Council formally documents its assessment of any impairments on its asset base, on a timely basis, which reflects current market conditions for each group of assets and the timings of the last formal valuation;
 - the Council should ensure that it regularly reviews its depreciation policy and apply this on a consistent basis to each group of assets;
 - arrangements should be in place to ensure that debtors relating to housing benefit overpayments are derived from robust and reliable financial information from the housing benefits system at the year end. Furthermore, the Council should ensure that it documents a clear rationale for the determination of its bad debt provision for these debtors, based on historical performance in debt recoverability;
 - the Council needs to ensure that arrangements are put in place to review the provisions and reserves balances reported in the year accounts to ensure that comply with the requirements of Financial Reporting Standard (FRS) 12; and

- a review process should be implemented to reduce the number of disclosure and presentational adjustments in the accounts and improve clarity of financial information for the reader.

2.4 Our annual report to those charged with governance reported also identified a small number of unadjusted items, which were not processed by management, as these were not material to the financial statements. These adjustments would have reduced the deficit reported in the Income and Expenditure account by £314,000.

Financial performance

2.5 The Council delivered its General Fund service plans for a total net cost of £350 million, an underspend of £3.5 million against the revised budget of £353.5 million. Following the audit of the accounts, and additional £1.8 million was added to the general fund balance, following an adjustment to the provision for recovery of housing benefit overpayments. The General Fund balance carried forward to 2009-10 was £14.2 million. However plans are in place to use these balances for future budget pressures.

2.6 The Council set its revenue budget for 2009-10, which was approved on 24 February 2009. This was set at £365.3 million.

2.7 Our review of the latest quarterly revenue outturn report, to the end of month 6 (September 2009), shows the Council is forecasting an overspend of £1 million against this budget. This could potentially increase to £2 million, depending on the achievement of savings in Health and Social Care.

2.8 We will continue to monitor the Council's financial standing and its performance against budgets throughout the year.

Financial systems

2.9 We undertake sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Overall, our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

2.10 We completed a full review of the Council's Internal Audit Service in 2007-08, to assess its overall level of compliance against the Chartered Institute of Public Finance and Accountancy (CIPFA) internal audit standards. The Council's Internal Audit department continue to perform well as a service and meet the requirements of the CIPFA internal audit standards enabling us to take assurance from their work.

2.11 Our information systems specialists performed a high level review of the general IT control environment, as part of our assessment of the overall internal control system and concluded that there were no significant weaknesses which could adversely impact on the Council's financial statements.

Annual Governance Statement

- 2.12 We have reviewed the Council's arrangements and process for compiling the Annual Governance Statement (AGS). In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Council. Our review confirmed that the Council has a robust process in place to produce and scrutinise this statement and no adjustments were required to the presentation of the AGS.

Dealing with the public

- 2.13 We received two requests from local electors who wanted to raise matters regarding the Council's accounts. We have undertaken further work, where necessary, to gain sufficient assurance that these matters did not impact upon the Council's accounts or our opinion on them.

Certification of Grant Claims

- 2.14 In addition to our Code responsibilities, we are required, acting as agents of the Audit Commission, to certify a the Council's grant claims and returns, in accordance with the following arrangements:
- claims below £100,000 are not subject to certification;
 - claims between £100,000 and £500,000 are subject to a reduced, 'light – touch' certification; and
 - claims over £500,000 will be subject to a certification approach determined by the auditor's assessment of the control environment and management preparation of claims.
- 2.15 We have already completed the certification of a number of claims for the Council relating to the 2008-09 financial year and have met all government department deadlines set under these arrangements. Our certification work is expected to be complete by the end of December 2009 after which we will prepare a separate grants report, summarising issues from the 2008-09 audit, to facilitate continuous improvement.

3 Use of resources

Introduction

- 3.1 We issued our annual Value for Money (VFM) conclusion on 28 September 2009, at the same time as our accounts opinion, in line with statutory requirements. We concluded that, for 2008-09, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 3.2 Our VFM conclusion was based on the results of Use of Resources assessment (UoR) and specific work on locally identified audit risks, which have contributed to our VFM conclusion by either feeding into our UoR assessment scores, or have been separately reported.
- 3.3 The UoR assessment and our joint Council and PCT Health Inequalities follow-up review have been separately reported to senior managers and the Audit Committee. The review of Financial Management, Treasury Management and the West of England Partnership have directly contributed to our VFM conclusion and the UoR assessment and are in the process of being reported to the Council. This letter provides a high level summary of these reviews.

2008-09 Value for money conclusion and use of resources assessment

- 3.4 Auditors inform and limit their value for money conclusion by reference to relevant criteria under the Audit Commission Code of Audit Practice. These criteria cover particular areas of audited bodies' arrangements specified by the Audit Commission under the Code of Audit Practice. From 2008-09, the key lines of enquiry (KLoE) for the scored use of resources assessment also form the criteria for the value for money conclusion. Failure to achieve an 'adequate' assessment in any one or more area results in either an "except for" or "adverse" overall conclusion, in respect of those specific areas.
- 3.5 We assessed the Council as achieving level two or above in all of the areas covered by our use of resources assessment. This enabled us to issue an 'adequate' conclusion for all of the relevant criteria within our overall value for money conclusion.
- 3.6 These assessments, and their impact on the overall 2008-09 conclusion for the Council, are summarised in table 1 overleaf.

Table 1: Components of value for money conclusion 2008-09

Area	Source of evidence	Use of resources Score	Arrangements adequate?
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	KLoE 1.1	3	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	KLoE 1.2	2	Yes
Is the organisation's financial reporting timely, reliable and does it meet the of internal users, stakeholders and local people?	KLoE 1.3	2	Yes
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	KLoE 2.1	2	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	KLoE 2.2	2	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	KLoE 2.3	3	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	KLoE 2.4	2	Yes
Natural resources	KLoE 3.1	3	Yes
Strategic asset management	KLoE 3.2	3	Yes

Key for KLoE scores:
 1 - Below minimum requirements - inadequate performance
 2 - Meets minimum requirements – performs adequately
 3 - Exceeds minimum requirements – performs well
 4 - Significantly exceeds minimum requirements – performing excellently

Note that KLoE 3.1 'Managing natural resources' and KLoE 3.2 'Managing assets' were not applicable to the Council for 2008-09

3.7 The Council's use of resources scores in the three themes, drawn from the scores above, are summarised in table 2.

Table 2: Use of resources scores

Theme	2009
1 Managing finances	2
2 Governing the business	2
3 Managing resources	3

- 3.8 Overall, we have assessed the Council as having sound arrangements in place across all areas, with particularly strong performance in 'the managing resources' theme. We consider that the Council should be in a strong position to build upon the scores identified previously to secure an improved assessment by demonstrating sustainable outcomes across all of the Council's activities, although we recognise that that these changes will take time to achieve.
- 3.9 The scores achieved by Bristol City Council are fairly representative of the assessments of councils nationally. This is a result of the new, more demanding assessment criteria which demand, amongst other things, demonstration of improved service delivery outcomes, rather than simply robust arrangements and improved outputs, which allowed councils to achieve higher assessment ratings in the past. As a result the scores are not directly comparable with the use of resources assessment in 2007-08.
- 3.10 The key actions for the Council arising from our assessment include the following:
- increasing the focus on outcomes throughout the organisation, rather than just the processes;
 - demonstrate VFM and improved efficiencies across the Council;
 - a thorough review of the accounts, incorporating consistency checks, should be undertaken prior to the accounts being approved and presented for audit;
 - develop outcomes based commissioning throughout the Council, both internally and externally, which delivers improved outcomes and value for money as a result; and
 - develop and agree with partners effective, joint risk management arrangements.
- 3.11 We are in the process of agreeing an action plan with management to implement these and our other detailed recommendations. We will follow-up the progress on the implementation of these as part of our 2009-10 audit.
- 3.12 A summary of our detailed findings for each theme area is provided in the following paragraphs. This highlights the key areas where the Council is performing well as well as those areas where it needs to focus in order for it to improve its assessment. Further detail is contained within our report on the 2008-09 UoR assessment.

Links to Comprehensive Area Assessment

- 3.13 The findings from our work are also considered by the Audit Commission's Comprehensive Area Assessment (CAA) Lead along with their own work on 'Managing Performance' to determine the overall Organisational Assessment. This assessment then feeds into the CAA for the area as a whole. The CAA work is reported separately by the Audit Commission and, as such, is not repeated within this report. However, we have held discussions with the CAA Lead to ensure that our work and judgements are consistent with their own and represent a full and fair reflection of the Council.

Managing finances

- 3.14 This theme focuses on assessing whether the Council has sound strategic and financial management, that is, whether it plans its finances to deliver its priorities, the extent to which it has a sound understanding of its costs and performance, and whether its financial reporting is timely, reliable and meets the needs of its population.
- 3.15 We have concluded that overall for theme 1, the Council has adequate arrangements in place. The Council is performing well in having effectively planned its finances to ensure delivery of its priorities. The Council is beginning to demonstrate delivery of its strategic outcomes, such as improved educational attainment and an increase in the number of frail elderly people helped to live at home. These improvements were achieved during 2008-09 and a stable financial environment was maintained.
- 3.16 However, in order to improve, the Council needs to develop further its understanding of costs, across the whole of the organisation, to enable it to demonstrate value for money in high cost areas. The Council should be looking to where improvements could be made next, based on comprehensive comparative information available to members, senior officers and service managers, throughout the organisation.
- 3.17 The Council should also improve its financial reporting in order to ensure that published information is fit for purpose and meets the needs of users. The use of integrated financial and performance information should be extended to enable decision makers to see a more complete position.

Governing the business

- 3.18 This theme focuses on strategic commissioning and good governance, in particular how well the Council governs itself and commissions services that provide value for money and deliver better outcomes for local people.
- 3.19 Under theme 2, we concluded that adequate arrangements were in place. This judgement was based on our findings relating to commissioning and procurement, where the Council is beginning to develop outcomes based commissioning, but this has yet to deliver significant outcomes and value for money for both internally and externally provided services. The management arrangements were found to be robust for data quality, but the Council needs to ensure its data security policy is up to date and that systems are in place to record any system breaches.
- 3.20 We are able to conclude that the Council is performing well in promoting the principles and values of good governance, both within the Council and through its strategic partnerships. However, the Council needs to establish effective joint risk management arrangements within its strategic partnerships, such as joint risk registers for the Local Strategic Partnership and the West of England Partnership.

Managing resources

- 3.21 This theme considers areas which have not, previously, been assessed on their own in detail, the use of its natural resources, assets and workforce. The Council's arrangements and outcomes resulting from effective workforce planning and management has not been considered in 2008-09 as the Audit Commission has prescribed that the introduction of this theme will be phased over three years.
- 3.22 For theme 3, managing resources we have concluded that the Council is performing well. The Council has demonstrated improvements and outcomes to reduce the impact on the environment, such as a reduction in carbon dioxide emissions. We are also able to commend the Council for effectively managing its assets to ensure the delivery of its strategic priorities.

Local risk based reviews

Joint Council and Bristol PCT Health Inequalities Follow-up

- 3.23 In June 2008, as external auditors for Bristol Primary Care Trust and Bristol City Council, we carried out a joint review of the actions being taken by the two organisations to address local health inequalities. We examined how the organisations are individually and collectively working through Bristol's Local Strategic Partnership and the joint Director of Public Health post to address key issues.
- 3.24 We considered how commissioning and Public Health are driving the health inequalities agenda and throughout the review focused our attention on two key issues that are important in Bristol to reduce:
- teenage conceptions; and
 - the life-expectancy differential between wards.
- 3.25 The Council and the PCT have made good progress and completed the majority of the recommendations made in our original review. There have been a number of significant changes, both within the individual organisations and the Local Strategic Partnership (Bristol Partnership). These changes include the reconfiguration of the Bristol Partnership and the Health and Well Being Board and the development of a more strategic approach to reducing the teenage conception rate.
- 3.26 These changes were made as both the Council and the PCT recognised that the existing arrangements needed to be updated in order to improve performance and deliver improved outcomes for the population of Bristol.
- 3.27 We consider that these arrangements could be improved further if the following recommendations were implemented:
- the Council and PCT should continue to actively monitor the teenage conception rate to assess the effectiveness of initiatives and actions and implement alternative actions should these arrangements not result in a reduction in the conception rate;

- progress against the Health Inequalities Framework should be assessed and reported, at least annually, to the Bristol Partnership, supported by appropriate and relevant reporting to the Council and PCT;
- the Council and the PCT should continue to assess and monitor their partnership arrangements to ensure they are effective to deliver successful outcomes for the people of Bristol;
- the PCT and the Council should ensure that services and initiatives developed to reduce health inequalities continue to deliver value for money at both the initiation stage and on a regular basis;
- the PCT and the Council should ensure they regularly evaluate the VFM benefits of using joint commissioning (both the process and the services delivered) and ensure they can demonstrate that it has delivered cost and quality improvements.

West of England Partnership Governance Arrangements

- 3.28 The West of England Partnership (WEP) was established to meet some of the challenges of providing public services and gaining inward investment across the West of England sub-region. It recognises that issues with a sub-regional impact such as transport and waste are better managed in partnership by the four councils in the sub region. The WEP provides opportunities for securing funding and having a co-ordinated approach which is likely to offer better value for money and improved outcomes than through each council operating on an individual basis.
- 3.29 The review of WEP is a joint approach involving the auditors from all of the local authorities making up the WEP. Our review focused on governance, project management and value for money as these are key risks associated with multi-agency partnership working. We reviewed the overall management arrangements of the WEP and also focused on one key project - the Waste Private Finance Initiative (PFI) Outline Business Case (OBC) - to evaluate their application in practice.
- 3.30 Our work is now complete and a final report will be issued in January 2010. Our overall conclusion is that the accountability and governance arrangements of the WEP are clear and effective but need to develop further to manage the increasingly complex and high value projects undertaken. Our conclusions against each key line of enquiry are set out below.

Table 3: Review of WEP - Key conclusions

Key Line of Enquiry	Summary conclusion
Accountability and Governance	Accountability and governance arrangements of the WEP are clear and effective but need to develop further to manage the increasingly complex and high value projects undertaken.
Decision making	The WEP has effective decision making structures and good arrangements to support delivery of projects.

Key Line of Enquiry	Summary conclusion
Project Management	Project management is very effective.
Performance Management	Performance is actively monitored and progress reviewed at operational and project level. Further work is needed at a strategic level.
Risk Management	Risk Management arrangements are effective for individual projects but joint risk management at a strategic level is underdeveloped.
Procurement Management	Procurement management at project level is effective.
Stakeholder and public engagement	Stakeholder and public engagement is strong.
Value for Money	The WEP exhibited good practice in demonstrating that the waste PFI represented value for money. A mechanism through which the WEP can demonstrate overall value for money to the public needs to be developed.

Treasury management

- 3.31 Bristol City Council, as with many other local councils, has experienced challenges in the current financial climate which has affected its investments and returns. In October 2008, a number of Icelandic banks went into administration. The Council had a total of £8m invested in fixed term investments, of which £5m was deposited with Glitnir bank and £3m deposited with Landsbanki.
- 3.32 The Council arranged for its Internal Audit service to review the position and it confirmed that the Icelandic bank investments had been made in accordance with the Council's Treasury Management Strategy. Internal Audit also provided recommendations relating to risk spreading, long term investment strategy and procedures for emergency withdrawal of investments. In addition, in November 2008, the Resources Scrutiny Commission undertook a review of the Council's Treasury Management operation in light of the Icelandic banking crisis.
- 3.33 During June 2009, we undertook a further review to follow up the Council's response to the Icelandic banks situation and consider the lessons learned from the Audit Commission report and how they might apply at the Council.
- 3.34 Our review confirmed that the Council had reviewed its treasury management practices and as a result, there is a revised approach to borrowing and lending. These changes include the adoption of lowest common denominator approach to credit ratings and suspension of long term borrowing. Also, more detailed monitoring has been introduced, with monthly reports to the Executive Member to supplement the existing quarterly performance reports.

- 3.35 The Council updated its treasury management policies and strategies in March 2009 and will consider further updates in light of the CIPFA revised Treasury Management Code which has recently been released. The Council should consider the impact of this revised code on its own scrutiny, approval, training and reporting arrangements.
- 3.36 Our review is complete and the key messages have been discussed with officers. Further feedback will be provided after the current review of the treasury management department by external consultants.

Financial management

- 3.37 The Audit Commission undertook a review of Financial Management at the Council, in 2007, to assess its arrangements against the standards aspired to under the discussion paper World Class Financial Management. Our review aimed to assess the progress to date in the Council's objectives to provide a world Class service and to consider the overall Budget setting process and timetable to assess the adequacy of the Council's financial planning and risk management arrangements.
- 3.38 In June 2009, we assessed the risk assessment process undertaken by the Council to support the budget setting process and the flexibility of budgets in light of the credit crunch environment. Our review confirmed that, for 2008-09, the Council had budget timetables in place with regular monitoring of compliance and the Council provided directorates with guidelines on areas such as inflation, pay increases, utility costs and ensuring the base budgets reflected the new directorate structure.
- 3.39 The Council continues to work towards its 'vision for finance' to provide a World class service. It has appointed a business analyst and is undertaking training for finance staff and operational managers on unit costing to further embed the value for money agenda. The Council has also commenced its roll-out of the web-based purchase to pay system and the centralisation of creditors.
- 3.40 Our work has been completed and the key messages fed back through meetings with officers and through our conclusions in the Use of resources assessment.

4 Closing remarks

- 4.1 This letter was discussed with the Council's Chief Executive on 22 December 2009, and is now presented for members' consideration at Audit Committee.
- 4.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
December 2009

Appendix A 2008-09 reports issued

Report	Date issued
Audit plan	April 2008
Review of Budget Setting Arrangements	December 2008
Interim audit progress report	May 2009
Annual report to those charged with governance	September 2009
Opinion on financial statements	September 2009
Value for Money Conclusion	September 2009
Health Inequalities - Follow up review	September 2009
Use of Resources report	October 2009
Joint review of West of England partnership	December 2009
Annual audit letter	December 2009
Grants report	Anticipated - January 2009

Appendix B Audit and other fees 2008-09

Audit area	Budget 2008-09 (£)	Actual 2008-09 (£)
Financial statements	313,875	313,875
VFM conclusion / Use of resources	197,325	197,325
Total Code of Practice fee	511,200	511,200
Other services*	Nil	25,500
Certification of grant claims and returns	140,000	To confirm

*Fees disclosed under other services relate to the accounting opinion in respect of the Hengrove Park PFI project and investigating specific matters brought to our attention.



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