The Audit Findings for South Gloucestershire Council

Year ended 31 March 2021

20 January 2021

Contents

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

1. Headlines

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

Financial Statements	
Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was carried out between September and December 2021 and is now substantially complete. The accounts were prepared to a good standard together with appropriate working papers available from the start of the audit in most areas. We have identified one material adjustment to the main financial statements. This affects net expenditure in the Comprehensive Income and Expenditure account and the balance sheet, including the Council's useable reserves. This adjustment reduces both debtors, income, and useable reserves by £9.8 million. This is a material error. We have set out more detail on the error on page 15. We reviewed how the Council has accounted for the City Region Deal. When the Council's share of the Unallocated City Region Deal Pool balance was transferred to an earmarked reserve, an income code was credited (by £9.9 million) as opposed to an expenditure code. The effect was to show higher gross income and higher gross expenditure in the Council's Comprehensive Income and Expenditure Account (CIES). There was no impact on the Surplus/ Deficit on the Provision of Services. The Council amended its statements of accounts to correct the position. We also reviewed the Council's bad debt impairment allowance for Business Rates in the Collection Fund. In the light of the actual experience in 2021, we consider the Council's estimation of impairment to be high and would expect the impairment allowances to be reduced by c.£3m to £4 million in the next review.. In addition a prior year adjustment is necessary due to restating the way grants received in advance are shown and this is set out in Appendix C alongside other audit adjustments. Unadjusted misstatements are also set out in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Subject to the outstanding work being resolved, we anticipate issuing an unqualified audit opinion. The outstanding items include the receipt and review of the management representation letter and the review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed our VFM work and so are not in a position to issue our Auditor's Annual Report. A letter explaining the reasons for the delay is attached in Appendix F to this report. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. As part of our audit planning we identified a risk in respect of financial sustainability. Our work on this risk is near completion and an update is set out in the value for money arrangements section of this report.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in February 2022.
Significant Matters	We did not encounter any significant difficulties in performing our work.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in April 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding items being resolved, we anticipate issuing an unqualified audit opinion as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the very good assistance provided by the finance team and other staff. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, physical verification of assets and verifying the completeness and accuracy of information provided remotely produced by the Council.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan .We detail in the table below our determination of materiality for the Council

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	9.5m	We determined materiality for the audit of the Council's financial statements as a whole to be £9.5m, which is 1.5% of the Council's gross operating expenses in 2019/20
Performance materiality	6.65m	We used a lower level of materiality, to determine the extent of our testing. We set this at 70% of financial statement materiality.
Trivial matters	500k	We determined the threshold at which we would communicate misstatements to the Accounts and Audit Committee at £500,000 (roughly 5% of financial statement materiality)
Materiality for senior officer remuneration	100k	We have set a lower level of materiality for senior manager remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts. We consider this level of materiality is appropriate to the size of balance and interest in this area by the users of the accounts.

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls	We - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence - tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; - evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. As previously mentioned to Audit and Accounts Committee journals do not require approval prior to being posted to the system. Budget holders do however provide some level of check as they should review all postings. **For year-end journals there is a review procedure prior to the journals being input e.g. pensions, assets, collection fund etc. and a post input review that the accounts are as expected.** We consider that this increases the risk of fraud or error and Those Charged With Governance should confirm that they are satisfied with this approach.. No other significant issues have been identified.
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Auditor commentary Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable In addition we completed our understanding of the processes and controls surrounding COVID-19 grant income and determined that this can also be rebutted. Therefore we do not consider this to be a significant risk for the Council.

Significant audit risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council re-values its land and buildings on a rolling five year programme to ensure that the carrying value is not materially different from fair value. It also carries out a desk top exercise each year to ensure that those assets not revalued in that year are not materially misstated. This represents a significant estimate by management in the financial statements due to its size as land and buildings form a significant part of the Authority's assets. We identified the valuation of land and buildings valuations as a risk requiring special audit consideration. .	**Auditor commentary** Our audit work included, but was not restricted to: • assessing management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluating the competence, capabilities and objectivity of the Council's management experts; • writing to the valuers to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • testing revaluations and ensuring they are input correctly into the Council's asset register and accounted for correctly • discussing with the valuer the basis on which the valuation was carried out, including challenging the key assumptions used; and • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. The Council's accounting policy on land and buildings PPE valuations is shown in note 1 to the financial statements and related disclosures are included in note 11. There have been no significant issues identified. Note 11 was corrected to show the actual dates of valuations.

Significant audit risks

Risks identified in our Audit Plan	Commentary
Valuation of investment properties The Authority revalues its investment properties on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This value represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management engage the services of an internal valuer to estimate the value at the balance sheet date. We therefore identified the valuation of investment properties, particularly revaluations and impairments as a significant risk.	**Auditor commentary** Our audit work included, but was not restricted to: evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; •evaluating the competence, capabilities and objectivity of the valuation expert, engaging an auditors expert to assist; •write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; •challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and •testing revaluations made during the year to see if they had been input correctly into the Authority's asset register and accounted for correctly. No significant issues have been identified.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, is a significant estimate in the financial statements. The net liability accounts for a significant amount of the Council's liabilities. We therefore identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	Our audit work included, but was not restricted to: • updating our understanding of the processes and the controls put in place by management to ensure that the net pension fund liability was not materially misstated and evaluating the design of the associated controls; • evaluating the competence, capabilities and objectivity of the Council's actuary who carried out the pension fund valuation; • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; • confirming the consistency of the pension fund gross asset and gross liability figures and associated disclosures in the notes to the financial statements with the actuarial report from the actuary; • obtaining assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements • performing analytical procedures in respect of the gross pension fund assets and liabilities. • evaluating the instructions issued by management to their management expert (the actuary Mercers) for this estimate and the scope of the actuary's work; • assessing the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and • testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. The Council's accounting policy on the valuation of the net pension fund liability is shown in note 1 to the financial statements and related disclosures are included in note 35. We have not identified any significant issues from this work.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Senior Officers Remuneration With a lower materiality applied owing to the sensitivities around these disclosures, there is heightened risk that a material misstatement may occur	**We:** **• gained an understanding of the process used for recording Senior Officer Remuneration and evaluate the procedures;** **• agreed, on a sample basis, entries in the remuneration report to payroll evidence and pension disclosures.** **Our work did not identify any significant issues.**
Completeness of non-pay operating expenses and payables Non-pay expenses on goods and services represent a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of costs yet to be invoiced. There is a high instance of these estimated accruals at the year-end. The Council has processed a number of COVID 19 related grants in 2020/21. We consider that these present an increased risk of fraud or error. We therefore identified completeness of non-pay operating expenses and payables as a risk requiring audit consideration.	We • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • tested a sample of balances included within trade and other payables; • tested a sample of expenditure and year end balances related to COVID grants; • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. **Our work has not identified any significant issues.**
Credit loss allowances for unrecoverable debt The Council receives income from a number of sources including fees and charges, council tax, and business rates (NDR). IFRS9 requires the council to make adequate provision against future credit losses against these income sources.	We reviewed the Council's provisions relating to unrecoverable debt. In most instances we agreed with the provision and the methodology provided. With regard to business rates impairment allowances in the Collection Fund we noted that the Council had significantly reduced its assumptions on collectability of debt, because it was unable to pursue debts through the courts as a consequence of COVID-19. In particular, it had provided for 80% of the outstanding NDR balances from 2020/21 and 100% for balances prior to this. We have reviewed the receipts since 31 March 2021 and we note that the Council has already received balances of c£2.2million. Relating to 2020/21. We also noted that the outstanding balance at 20 October 2021 of £7.9 million is less than the provision for losses of £8.1 million. We consider that the provision is likely to be overstated by £3-4 million. In the light of the actual experience in 2021, we consider the council's estimation of impairment to be high and would expect the impairment allowances to be reduced by c.£3m to £4 million in the next review.

2.Financial statements – key judgements and estimates

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

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals	The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	The Council has made a provision for the Business Rate appeals that have been received but not settled at year end and an assessment of potential appeals. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. The Council's provision follows a similar basis to the previous year and overall we are satisfied with the approach taken and that the provision is not materially misstated. We have challenged the basis of this provision and in so doing reviewed appeals and payments to date. No significant issues have been identified.	Green
Land and Buildings and investment properties	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. Management has considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2020 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The Council now also has significant investment properties which are required to be valued annually.	We have challenged the basis of valuation including reviewing the detailed assumptions used in the valuations. We have utilised our own expert valuer in this process. There have been no significant issues identified	Green

Assessment

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

2.Financial statements – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £464m	The Authority's net pension fund liability represents a significant estimate in the Authority's financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£464m) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Authority Accounting (the applicable financial reporting framework) We have therefore concluded that there is not a significant risk of material misstatement in the IAS19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS19 estimates is provided by the administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions(discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS19 liability. We have therefore concluded there is a significant risk of material misstatement in the IAS19 estimate due to the assumptions used in the calculation. With regard to these assumptions we have therefore identified the valuation of the Authority's pension fund net liability as a significant risk.	PwC were engaged by the NAO as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2021. We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.	Green

Assumption	Actuary Value	PWC Range	Assessment
Discount Rate	2.10%	2.10%-2.20%	●
Pension increase rate	2.70%	2.70% p.a.	●
Salary growth	4.20%	1.25% p.a. to 1.50% p.a. above CPI of 2.70% p.a.	●
Mortality rate	- Non retired members: S3P_ CMI_2018_[1.75%] (98% males, 88% females) - - Retired members: S3P_ CMI_2018_[1.75%] (92% males, 87% females)	Males: 92% - 131% Females: 87% - 106% Improvements: 7.5% smoothing factor, nil addition to initial improvements, and 1.75% pa long term rate	●

2.Financial statements – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability		We have also reviewed the: • Completeness and accuracy of the underlying information used to determine the estimate • Reasonableness of the Authority's share of LGPS pension assets. • Reasonableness of increase/decrease in estimate • Adequacy of disclosure of estimate in the financial statements We have not identified any significant issues .	
Waste PFI liability	The Council use a financial model to estimate the various elements of the future financial liability of the waste PFI scheme.	We have -updated our review of your accounting treatment to ensure it is appropriate -compared accounting entries in the financial statements to your PFI model -compared your accounting entries to a Grant Thornton model We noted that there is a difference between the liability included in the GT model and your own of £3.1m (higher) which is often the case due to differences in modelling techniques. We consider that your estimate of your liability is materially correct. We noted that the note setting out future PFI payments had not been updated to reflect changes in the cost of waste treatment. This has now been amended.	Yellow

Assessment

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

Significant findings – matters discussed with management

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

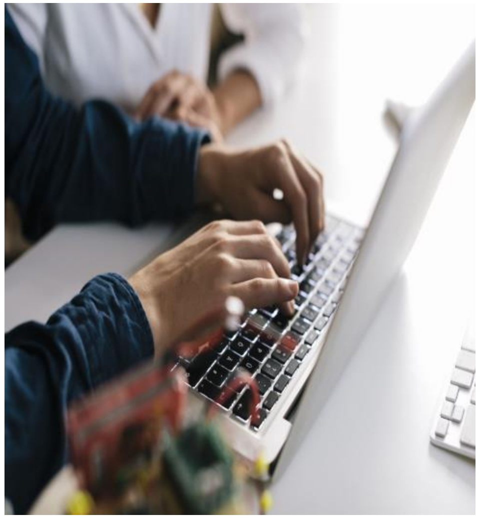
Significant matter	Commentary
Debtors	In our sample testing of debtors we identified an error of £8.5 million relating to Section 31 (business rates) grant debtors. Management had identified another debtor which increased the error to £9.8 million. The main adjustment (£8.5 million) related to a duplication of Section 31 grant which was prepaid in March 2020 (and correctly accounted for) but then also accrued for at year end in 2020/21. The error results in an overstatement of £8.5million in NNDR income and Collection Fund Debtors. Management identified another journal "duplication" taking this to £9.8 million in total . This has occurred because of the various and complex changes to the usual procedures for these government grants. The Council plan additional reconciliation work as part of its the routine procedures prior to publication of the draft accounts in the future.
Accounting for the City Region Deal	We reviewed how the Council has accounted for the City Region Deal. When the Council's share of the Unallocated City Region Deal Pool balance was transferred to an earmarked reserve, an income code was credited (by £9.9 million) as opposed to an expenditure code. The effect was to show higher gross income and higher gross expenditure in the Council's Comprehensive Income and Expenditure Account (CIES). There was no impact on the Surplus/ Deficit on the Provision of Services. The Council amended its statements of accounts to correct the position.

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Accounts Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. The Council amended the related parties disclosures included in the accounts to meet the definition in the Code of Practice of Local Authority Accounting.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which was approved at the November Audit and Accounts Committee.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to third party banks and other financial institutions and a number of other local authorities. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmations. There are a number of third party balances where it is more efficient to undertook alternative procedures, including long term debt with the PWLB where we received central notification of the balances and temporary borrowing where the cash had been repaid before the audit commenced.
Accounting practices	Our review found no material omissions in the financial statements. Note 4: Assumptions Made About the Future, and Other Major Sources of Estimation Uncertainty does not yet fully comply with the Code in reporting on uncertainty as it does not sufficiently describe the uncertainties. However the Council made some improvements from the original draft accounts.
Audit evidence and explanations/ significant difficulties	There were no significant difficulties in carrying out our audit..

2. Financial Statements - other communication requirements

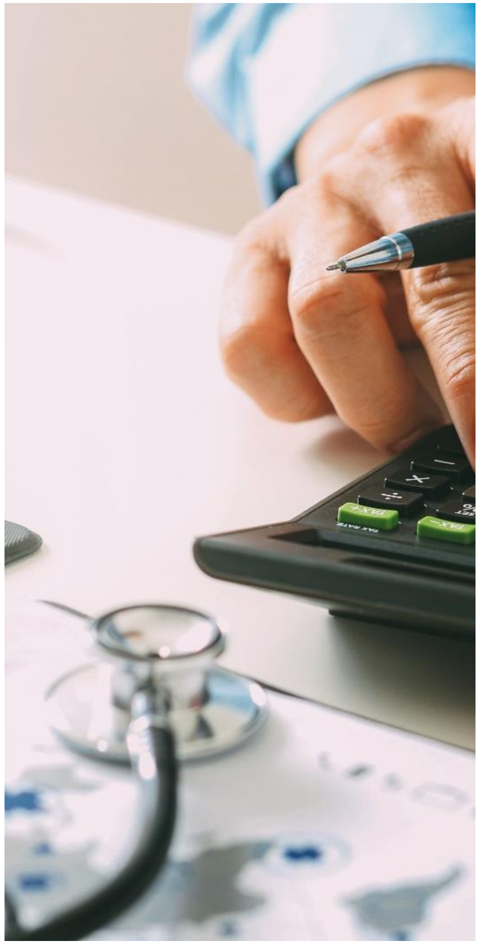
Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report , is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We have not yet started this work.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of **the Council** in the audit report, as detailed in Appendix E, due to incomplete VFM work and WGA.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

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

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

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any such risks. Our work on value for money is still ongoing.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

There is only one matter that could impact on our independence as auditors that we wish to draw to your attention. One of the directors in our Bristol office has a close personal relationship with an employee of the Council and therefore we have put in place a safeguard which is that the senior audit staff engaged on this audit (namely the Engagement Lead and Engagement Manager) are supplied from another region of the Firm. The Director concerned will not have any input into your audit and will not have access to our audit files.

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

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

Details of fees charged are detailed in Appendix D

Transparency

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

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	6,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	31,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

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

Assessment	Issue and risk	Recommendations
● Medium	In 2019/20 we issued a report to management highlighting issues on user controls and recommended that progress on implementing these recommendations for improvements is reported to the Audit and Accounts Committee. This is yet to happen.	Progress on implementing our IT controls recommendations for improvements is reported to the Audit and Accounts Committee.
● Medium	As previously mentioned to Audit and Accounts Committee journals do not require approval prior to being posted to the system. Budget holders do however provide some level of check as they should review all postings. For year-end journals there is a review procedure prior to the journals being input e.g. pensions, assets, collection fund etc. and a post input review that the accounts are as expected. We consider that this increases the risk of fraud or error and Those Charged With Governance should confirm that they are satisfied with this approach	Review procedures for the authorisation of journals.
● Medium	In reviewing grants received in advance, management were not able to evidence the 13% administration fee applied as part of calculating the S106 grants received in advance balance.. In addition for the same contributions management did not have records of the date when pre 2015 contributions were paid to the Council and therefore when the amounts needed to be spent by. This may affect future accounting treatment. We also noted that the Council had omitted to claim for the last instalment of grant as per the agreement in one of the samples we reviewed,.	Obtain evidence to support the deduction of administration fees from section 106 contributions and the dates pre 2015 developer contributions were made to ensure future accounting treatment for these contributions is correct. Carry out checks to ensure all grant instalments have been claimed for.

Controls

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

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
● Medium	Incorrect mapping of cost centre REVSCH was identified by council officers in following up an audit query - mapped to CIES instead of MIRS.	Improve controls over the mapping of cost centres to the financial statements
● Medium	We noted that the Council did not have a formal letter of engagement with its internal property valuer. This is a mandatory requirement of the RICS Valuation – Global Standards. There was instead a less formal service level agreement in place.	Ensure there is a formal signed letter of engagement in place for any external valuers used.

Controls

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

B. Follow up of prior year recommendations

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

Issue and risk previously communicated	Update on actions taken to address the issue
Carry out a post project review of the final accounts and audit process to identify improvements for next year. This should include working with your ledger provider to automate this process to improve efficiency.	Review carried out and the whole process has been much improved in 2020/21. Particular positives to note included a review of evidence provided for samples selected before passing to us to ensure the evidence provided was adequate.
Ensure that officers are supplied with a formal valuation information from the Valuer when preparing the statement of accounts.	This was provided in 2020/21
Ensure that a report detailing all individual collection fund debtors is run each year as at 31 March	Made available in 2020/21.
Progress on implementing our IT controls recommendations for improvements is reported to the Audit and Accounts Committee.	There has not been any formal reporting back to committee to date.
The Council needs to give urgent consideration as to what action it needs to take to ensure it is in sustainable financial position for 2021/22 and beyond.including what savings programme is required.	To be followed up in VFM and reported in Annual Auditors Report
Ensure that a revised DSG recovery plan which is realistic is agreed by Members and the Schools Forum and progress against this is closely monitored.	To be followed up in VFM and reported in Annual Auditors Report

C. Audit Adjustments

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

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The Council duplicated the inclusion of two debtors as at 31/3/21. The main item related to section 31 business rates grant funding (£8.5million). In total the impact on debtors was to reduce these by £9.8 million, thereby also decreasing income in the CIES by the same amount. This will reduce useable reserves by £9.8 million.	9,800	9,800	9.800
The Council separately identified grants received in advance in 2020/21 when previously these were included in creditors. This is clearer presentation and now fully complies with the Code. The previous years balance sheet needed to be restated to show this on same basis. The opening balance sheet for 2019 saw £19.8 million move from short term creditors to grants received in advance and at 31/3/20 this movement was £30.8 million. The Council had originally classified all these as short term liabilities but has now classified all these as long term. Whilst we are satisfied this is materially correct, some will be short term.	None in 2020/21	None in 2020/21	None in 2020/21
The changes highlighted on the following page re note 8 also lead to a reduction in CAH expenditure and income of £3.9 million the CIES. This therefore had a nil effect on the total net expenditure shown.	3,933	0	0
£2.4 million grants were reclassified in the CIES from non ring-fenced grants to non-domestic rates income as they related to Section 31 grants. This also had a nil effect on total net expenditure as it was a reclassification.	2,416	2,416	0
When the Council's share of the Unallocated City Region Deal Pool balance was transferred to an earmarked reserve, an income code was credited as opposed to an expenditure code. The effect was to show higher gross income and higher gross expenditure in the Council's Comprehensive Income and Expenditure Account (CIES). There was therefore no impact on the Surplus/ Deficit on the Provision of Services.	9,954	0	0

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit. In addition to these some amendments were made for formatting and typographical errors.

Disclosure	Details	Adjusted
Various	A number of presentational, grammatical and numerical adjustments and additions were completed to the financial statements to improve the readability and understandability of disclosures and to ensure that they are in line with the current International Financial Reporting Standards.	✓
Accounting policies	The Council added an accounting policy and additional narrative re the £100m guarantee provided to North Housing Association	✓
Note 4	Note 4 estimation uncertainty was amended in several ways to : -no longer refer to pensions assets and investment property valuations. -revise disclosures on PPE	✓
Note 12	Note 12 was amended to take out reference to a RICS material uncertainty on investment properties as at 31/3/21	✓
Note 8	The Council changed the way benefits and other grants were described to make this clearer to readers of the accounts	✓
Note 7	Note 7-some error was identified by both the council and audit team in the EFA note principally that adjustments (£14.6m) did not mirror those in the MIRS (£86.3m) and a surplus on provision of services of £109.1m and not £37.3m	✓
Note 11	The schedule of asset revaluations by year note was amended to better reflect that a significant value of assets are held at cost and not revalued at all.	✓
Notes 13 and 14	Cash and cash equivalent balances reported at note 14 do not readily compare with the financial instrument disclosures at note 13 where an overdraft position is reported. This is because it is shown in Note 13 net of £5.7m held in an instant access deposit account. In Note 14 this is included under 'other short term deposits'. The Code does not permit such offsetting in these circumstances.. We do not consider this material.	X
Narrative statement	The Council corrected for a figure in the narrative statement which was inconsistent with the financial statements.	✓
Note 23	Note 23 BCF was expanded to provide the reader with a clearer understanding of how this partnership scheme was accounted for.	✓
Note 33	Note 33 (exit packages) was amended to take out £83k of exit packages which related to 2019/20.	✓

Audit Adjustments

Misclassification and disclosure changes (continued)

The table below provides details of misclassification and disclosure changes identified during the audit. In addition to these some amendments were made for formatting and typographical errors.

Disclosure	Details	Adjusted
Note 8	Note 8 expenditure relating to loss of sale of assets and other service expenditure was adjusted by £120m on both sides.	✓
Note 11	This table was revised to correctly show assets under construction at historic cost of £24.4m and not £6.1m.	✓
Note 29	The related parties note was revised to exclude reference to four bodies which did not meet the code definition and include expenditure for a wholly owned subsidiary, Bristol and Bath Science Park Estate Management Company Ltd	✓
Note 31	The comparative figure for operating leases in relation to investment properties was overstated.	✓
Note 11	Note 11 was amended to include a line for depreciation written out.to surplus/deficit in provision of services.	✓
Note 26	Note 26 –the audit fees table was amended to correct the financial year (from 2019/20 to 2020/21 and to add additional narrative to ensure it was clear that other fees payable to us were for audit related services.	✓
Note 32	The future payments for service concession (PFI) costs table was revised as the model the Council use to produce the accounts was significantly different to actual payments for 2020/21 and beyond.	✓
Note 11	Note 11 capital commitments did not include commitments after the end of April 2021. Therefore this was understated by £606,000	X
Note C3	In the collection fund supporting note C3, the business rates multiplier was incorrectly shown as 0.504 instead of 0.512	✓
Note 31	Note 31 on finance leases was amended to more clearly explain the basis of inclusion of schools transferred to academies	✓
Note 28	Note 28 grant income was amended to correct the breakdown of individual Covid grants.	✓

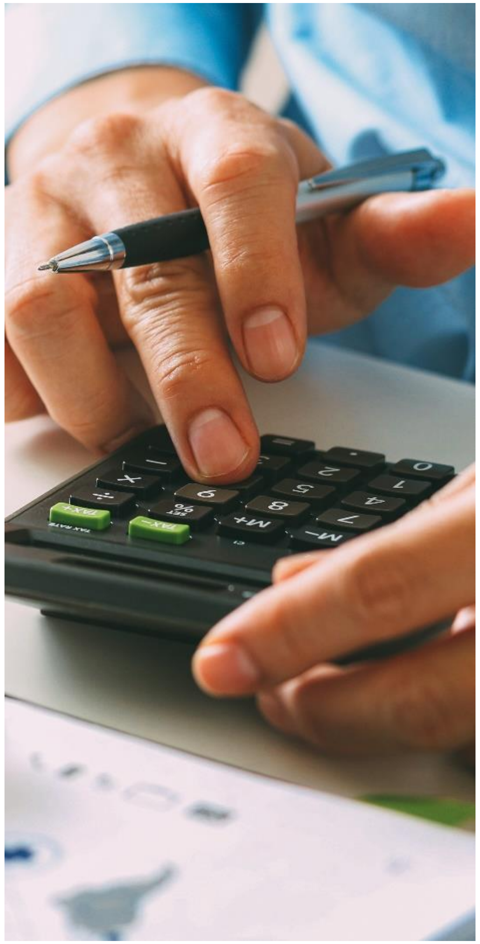
C. Audit Adjustments

Impact of unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Note 14 reports an overdraft position on bank current accounts of £8.657m and this is offset against other short term deposits of £21.011m which are described as " *investments in pooled funds and notice accounts where funds can be liquidated with less than three days notice*". The balance sheet reports net assets of £12.545m. On the balance sheet the overdraft should only be offset against the assets when the authority has a legally enforceable right to set off the amounts and the authority actually intends to settle on a net basis. To date we have not seen sufficient evidence that this is the case. The Council believe this shows a true and fair view of the actual position.	0	0	0	Do not agree
In addition to the duplicated debtors which were set on page 27, there was a similar debtor as a t 31 March 2021 of £658,438 which has not yet been adjusted for. Were this to be altered this would decrease debtors and income by £658,000.	658	658	658	Not material
We noted that depreciation had not been applied to some infrastructure assets in both 2019/20 and 2020/21. Understated depreciation was £6.5m over the two years. This would have increased CIES expenditure and reduced PPE asset values.	6,000 increase expenditure	-6.000 reduce assets	6,000 increase deficit	Not Material
Grants received in advance are all shown as non-current. Out of this £8.4m relates to current liabilities which has not been adjusted for on account of materiality.	0	0	0	Not material
Our creditors sample testing identified receipts in advance where some of the items (including billed future year rental payments) had received no income in 2020/21 and therefore should not have been treated this way. The sample item was for £1.28m and for up to £640,000 of this, no income had been received . The extrapolated error was a £2.75m overstatement of creditors and also overstatement of debtors. As a result there was no impact on Comprehensive Income and Expenditure Account. Total receipts in advance as at 31 March 2021 were £3.4m.	0	0	0	Not material

C. Audit Adjustments



Impact of unadjusted misstatements-Collection Fund

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

Detail	Charges to collection fund (000s)	Impact on collection fund expenditure (000s)	Impact on collection fund balance (000s)	Reason for not adjusting
The Council as billing authority maintains a separate Collection Fund which shows the collection from taxpayers and distribution to local authorities of council tax and non-domestic rates. Various charges are made to the Collection Fund including changes in bad debt impairment allowances. The amount of the charges impacts on the amounts available for distribution in future years, including the business rates income for the Council. Over time, allowances are adjusted for in the light of actuals, so the impact of the estimation is on the timing of the recognition of actual income. Covid-19 meant that the council was unable to pursue outstanding debt through the courts in 2020/21 and consequently it increased the proportions for its credit loss allowances. In particular, it had provided for 80% of the outstanding NDR balances from 2020/21 and 100% for balances prior to this. We have reviewed the receipts since 31 March 2021 and we note that the Council has already received balances of c£2.2million relating to 2020/21. We also noted that the outstanding balance at 20 October 2021 of £7.9 million is less than the provision for losses of £8.1 million. In the light of the actual experience in 2021, we consider the council's estimation of impairment to be high and would expect the impairment allowances to be reduced by c.£3m to £4 million in the next review.	-4,000 reduction in increase in the bad debt impairment allowances for business rates.	-4000 reduction in collection fund expenditure and decrease in collection fund deficit for the year	4000 decrease to collection fund deficit carried forward.	Do not agree and not material

D. Fees

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

Audit fees	Proposed fee(£)	Final fee(£)
Council Audit	163,396	163,396
Total audit fees (excluding VAT)	163,396	163,396

Non-audit fees for other services	Proposed fee (£)	Final fee (£)
Audit Related Services –housing benefits assurance	31,000	TBC
Audit Related Services –teachers pensions	4200	6,000

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of South Gloucestershire Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of South Gloucestershire Council (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Head of Financial Services' (S151 Officer) use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Head of Financial Services' (S151 Officer) conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Head of Financial Services' (S151 Officer) use of the going concern basis of accounting in the preparation of the financial statements is appropriate

E. Audit opinion (continued)

The responsibilities of the Head of Financial Services (S151 Officer) with respect to going concern are described in the ‘Responsibilities of the Authority, the Head of Financial Services (S151 Officer) and Those Charged with Governance for the financial statements’ section of this report.

Other information

The Head of Financial Services (S151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with ‘delivering good governance in Local Government Framework 2016 Edition’ published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Head of Financial Services (S151 Officer) and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 124, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Financial Services (S151 Officer). The Head of Financial Services (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Head of Financial Services (S151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion (continued)

In preparing the financial statements, the Head of Financial Services (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- .

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, The Local Government and Housing Act 1989, the Local government Act 1972 and the Local Government Act 2003

- We enquired of senior officers and the Audit and Standards concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:

- journals that altered the Council's financial performance for the year
- potential management bias in determining accounting estimates, especially in relation to

  - the calculation of the valuation of the Council's land and buildings and defined benefit pensions liability valuations; and

  -accruals of income and expenditure at the end of the financial year.

E. Audit opinion (continued)

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Head of Financial Services (S151 Officer) has in place to prevent and detect fraud;
  - journal entry testing, with a particular focus on significant journals at the year-end which had an impact on the Council's financial performance;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - **the provisions of the applicable legislation**
    - **guidance issued by CIPFA, LASAAC and SOLACE**
    - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

E. Audit opinion (continued)

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for South Gloucestershire Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report and we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2021.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Stocks, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date

F. Audit letter in respect of delayed VFM work

Dear Councillor Christopher Wood , Chair of Audit and Accounts Committee as TCWG,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay. As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2022. For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for the delay.

Yours Faithfully

Mark Stocks

Partner

Grant Thornton