The Audit Findings
for South Gloucestershire Council

Year ended 31 March 2019

Findings at 8 October 2019

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Gloucestershire Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 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 Council and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) 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 findings are summarised on pages 4 to 12. Material adjustments have been made to the main statements when compared to the draft financial statements. More details can be found 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. Our audit work is on-going and the following matters remain outstanding; • receipt of investment and bank confirmations from financial institutions; • final quality review of our audit file and the financial statements; • receipt of the management representation letter; and • review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that South Gloucestershire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 13 to 21.
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 issue our completion certificate when we issue our audit opinion, following the completion of our audit testing and our work on the Council's Whole of Government Accounts Data Collection Tool.

Summary

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 have been discussed with management.

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;
- controls testing of the Council's accounts payable system; and
- 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 or change our audit plan, as communicated to you in January 2019.

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 calculations remain the same as reported in our audit plan.

	Amount	Qualitative factors considered
Materiality for the financial statements	£10,924,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services for the local community and therefore gross expenditure at the Net Cost of Services level was deemed as the most appropriate benchmark. This benchmark was used in the prior year. Recognising the size and scale of the Council, we deemed that 1.85% was an appropriate rate to apply to the expenditure benchmark.
Trivial matters	£546,000	5% of materiality was deemed an appropriate level for triviality.
Materiality for senior officer remuneration	£16,500	A lower level of materiality was determined for the Senior Officer Remuneration balance due to the sensitivity surrounding this disclosure. This materiality was determined by applying approximately 1.85% to the total senior officer remuneration.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	As we reported in our Audit Plan we rebutted this risk because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including South Gloucestershire Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for South Gloucestershire Council.
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. We therefore identified the valuation of land and buildings, as a significant risk.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our testing identified a potential net understatement of property, plant and equipment of up to £9.67m. This consisted of a potential understatement of property valuations of £14.58m due to changes in build costs between the valuation date and the year end, and an over statement of £4.91m due to the capitalisation of costs for assets valued in year that had been revalued. More information can be found in Appendix C. We have raised a recommendation in Appendix A in respect of management's year end assessment of assets not revalued.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have: • evaluated the design effectiveness of management controls over journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. As reported in previous years, journals do not require approval prior to being posted to the system. Those Charged With Governance should confirm that they are satisfied with this approach.
Valuation of net defined benefit pension liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested within the report; • reviewed the Council's updated IAS 19 report incorporating the impact of the McCloud / Sargeant judgement, including consideration of the actuary's methodology and assumptions applied in the updated calculation; and • requested assurances from the auditor of the 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. The financial statements were updated for the revised pension liability which incorporates the assessed impact of the McCloud / Sargeant ruling which increased the liability by a material amount. More information can be found in Appendix C.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Building valuations - £610.679m	Other land and buildings comprises £423.572m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£187.107m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged their internal valuation experts to complete the valuation of properties as part of their five yearly cyclical basis. 93.3% of the total value of land and buildings were revalued during 2018/19. Properties valued by the valuer showed a net increase of £59.746m. Management have considered the year end value of non-valued properties by applying relevant indices to the previous asset valuations 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 overall land and building value. Land and buildings are valued using a rolling programme, with valuations undertaken at 31 December 2018, 31 January 2019 and 28 February 2019. Management did not undertake an assessment of the potential change in value between these dates and 31 March 2019. We have raised a recommendation that this should be undertaken in the future at Appendix A.	We: • evaluated the competence, capabilities and objectivity of the valuation expert and concluded that there were no issues; • discussed with the valuer the basis on which the valuation was carried out and considered any changes in methodology proposed between years. We identified that there were no significant changes and concluded that the methodologies applied were reasonable and appropriate; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. This did not identify a potential material difference between current value and the carrying value of assets. We also undertook work on those assets valued in 2018/19 but prior to 31 March 2019 to confirm that no material issue arose on these assets; • considered the consistency of estimate against data provided by our auditor's expert, Gerald Eve; and • reviewed the adequacy of disclosure of estimate in the financial statements. We reviewed the assumptions adopted by the Council's valuer and challenged these to source data. The Council's properties are valued prior to the year end, and for specialised assets the build cost information used in the valuation that is supplied by BCIS had increased between the date of valuation and the year end. This resulted in an understatement of the valuation of specialised assets. More information can be found in Appendix C.	● Amber

Assessment

● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £374.468m	The Council's net pension liability at 31 March 2019 per the draft financial statements is £374.468m (PY £324.945m) comprising the Avon Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The financial statements were updated to reflect the updated actuarial calculation of the net defined benefit pension liability following the McCloud / Sargeant judgement. More information can be found in Appendix C.	We: • completed an assessment of management's actuarial expert (Mercer) with reference to the work of PricewaterhouseCoopers (PwC) as our auditor expert to assess the competence of your actuary and the methods and assumptions used by them. An assessment of the assumptions used by your actuary against the range considered by PwC is set out below: (see table below) • considered the completeness and accuracy of the underlying information used to determine the estimate; and • considered the reasonableness of the Council's share of LPS pension assets. Once the Council receive their updated actuarial valuation we will consider the results of this and the implications for the financial statements and our audit. We will also ensure that the disclosures in the financial statements are adequate and meet the relevant accounting requirements.	● Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.5%	Green
Pension increase rate	2.3%	2.2% - 2.3%	Green
Salary growth	3.7%	3.7% (per 2016 triennial valuation)	Green
Life expectancy – Males currently aged 45 / 65	26.3 / 23.7	24.8 – 26.3 / 22.2 – 23.7	Green
Life expectancy – Females currently aged 45 / 65	29 / 26.2	27.9 – 29 / 25 – 26.4	Green

Assessment

● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

The Council include details of the critical judgements in applying accounting policies in Note 3 of the financial statements. We reviewed this note and narrative updates were made to the Note to ensure that they fully reflect the judgements being made. In our view, the judgements in respect of the City Region Deal and the Better Care Fund are not significant judgements.

The Council disclose assumptions made about the future and other major sources of estimation uncertainty in Note 4 of the financial statements. The disclosures in respect of business rate appeals and property, plant and equipment depreciation do not give rise to a significant risk of material misstatement in future periods and as such are not required under IAS 1.

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
McCloud / Sargeant ruling and the impact on the net defined benefit pension liability	The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. The legal ruling around age also has implications for other pension schemes where transitional arrangements on changing benefits were implemented, and this includes the Local Government Pension Scheme. The Government applied to the Supreme Court for permission to appeal but this was rejected in June 2019 which confirmed that there was a present obligation to pay additional benefits to scheme members affected, and that it is probable that there will be an outflow of cash as a result of this. We discuss the implications of this with management and more widely with the sector as a whole to ensure consistency. We requested that management discuss the implications of the current situation with their actuary and they obtained an updated IAS 19 report from their actuary in order to determine the impact on the net defined benefit liability. The updated report identified an increase to the net defined pension liability of £13.53m and management updated the financial statements to reflect this. Further information on the adjustment can be found in Appendix C.
Dedicated Schools Grant earmarked reserve	South Gloucestershire Council recognise a deficit reserve of £11.646m within their Earmarked Reserves balances in respect of their Dedicated Schools Grant deficit. From 2018/19, all local authorities with a cumulative Dedicated Schools Grant (DSG) deficit of 1% or more at the end of the financial year must submit a recovery plan to the Education and Skills Funding Agency, showing how they will bring the deficit into balance in a three year time frame. A Joint Department for Education and CIPFA statement released in June 2019 confirms that both parties are committed to working with other stakeholders to clarify the legal basis for, and accounting treatment of, DSG deficits in time for the 2020/21 budget round and 2019/20 accounts closure. The Joint Statement also confirms that the CIPFA Local Authority Accounting Panel (LAAP) considered the issue for 2018/19 and noted concerns regarding the presentation of an earmarked deficit DSG reserve, particularly given that there is not a clearly identified legislative basis for the ring-fencing of DSG deficits. We discussed the Council's current accounting treatment and the Joint Statement with management. We concluded that the Council's Usable Reserves are properly stated and that as such a user of the financial statements will be able to take an informed view of the Council's overall level of balances and reserves based on the information within the statements. We will discuss the accounting treatment with management in respect of future years once CIPFA confirm their expected treatment or any further guidance is issued. We also requested that management enhance the disclosure of the accounting treatment within their draft financial statements.
Infrastructure Asset depreciation	As part of our audit we queried management's critical judgement that stated infrastructure assets were not depreciated. This contravenes the requirements of the CIPFA Code, which requires infrastructure assets to be held at Depreciated Historic Cost. Management confirmed that infrastructure assets had not been depreciated over a number of financial periods and stated that they were not depreciated as the highways infrastructure forms a network that is intended to be maintained at a specified level of service potential by the continuing replacement and refurbishment of its components. We deemed that the current treatment of capitalising annual expenditure on infrastructure assets with no write down in the form of depreciation or derecognition of old components does not result in a cost being recognised to represent the use of service potential from the asset and hence does not result in the infrastructure asset being maintained at a specified level of service potential. Therefore, we deem that infrastructure assets should be held at depreciate historic cost. We have requested management review their historical records for infrastructure assets in order to identify the depreciation charge that should be made in year. As depreciation was not charged in prior years, this resulted in a material Prior Period Adjustment and a material change to the in-year 2018-19 depreciation charge.

Going concern

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).

Going concern commentary

Management's assessment process	Auditor commentary
The Council has a detailed Medium Term Financial Plan that runs to 2023/24 and a higher level financial forecast that runs to 2028/29. The Medium Term Financial Plan identifies balanced revenue budgets to the end of 2020/21, after delivery of savings targets and some use of earmarked revenue reserves. Our review of the Medium Term Financial Plan and the assumptions that underpin it did not identify any significant issues. As a Local Government organisation, the Council has a number of options available to it to raise finance should it require, including the decision on the level of precept and loan financing. Should it be required, the Council could also raise fees or cease discretionary services and it currently holds a healthy reserves balance. As such, the Council has a number of sources of finance available to it. The Council's Plan runs to 2020 which sets out the priorities of the Council, including it's delivery of services, with the aim of achieving the best for your residents and their communities. The CIPFA Code confirms that entities should prepare their financial statements on a Going Concern basis unless the services provided are to cease. There is no indication from Government that the services provided by the Council will cease.	Whilst management do not complete a written assessment of the Council's ability to continue as a going concern, we are satisfied that the going concern assumption is appropriate for the Council's financial statements and is in line with accounting standards and the CIPFA Code.

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 & Accounts Committee and have not been made aware of any significant matters in respect of fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	The Letter of Representation is included as a separate agenda item.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and financial institutions with whom the Council has invested funds or borrowed monies from. This permission was granted and the requests were sent. Positive confirmations were received to all requests.
Disclosures	Our audit identified a number of disclosure amendments that were made to the financial statements. More information can be found on these in Appendix C.
Audit evidence and explanations/significant difficulties	We experienced some significant delays in the receipt of certain supporting information that we requested as part of the audit process in year. There were also instances where information provided was not of sufficient quality to provide assurance over the sampled transactions, or where we were required to issue the same request a number of times during the audit. We recognise that staffing changes within the finance team contributed to this. We will meet to discuss this with management following the conclusion of the audit to identify the issues that arose and to ensure that this is not repeated in future years.

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 and we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
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 of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will be completed once we have received and reviewed the final version of the Council’s financial statements and our Assurance Statement will be issued following the release of our audit report.
Certification of the closure of the audit	We intend to certify the closure of the 2018/19 audit of South Gloucestershire Council when we issue the audit opinion following the October 2019 Audit & Accounts Committee meeting.

Value for Money

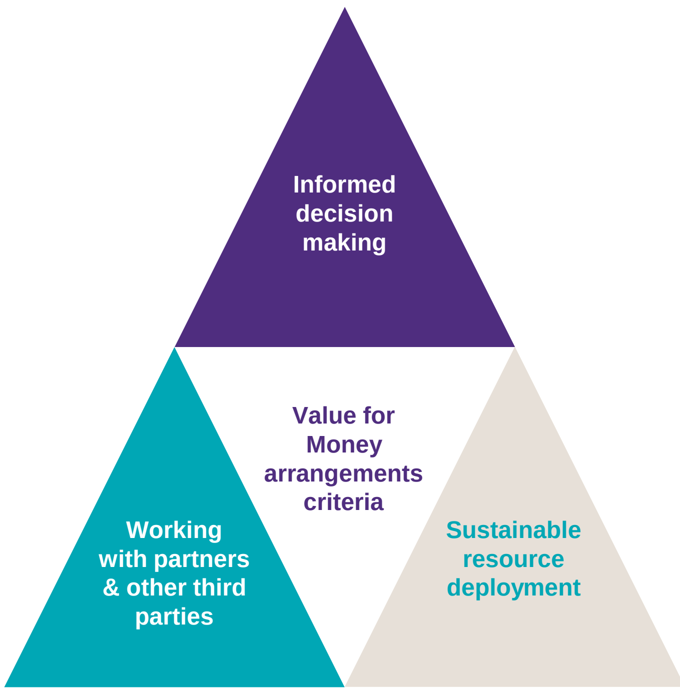
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council delivered a £3.8m revenue budget underspend in 2018/19 and met it’s in year savings target;
- the underspend allowed a transfer to the Financial Risks Reserve which is designed to support the revenue budget and also supported new service investments and opportunities;
- there is evidence that management actively monitored and managed the budget in year and the revenue outturn identifies that this was effective;
- the Medium Term Financial Plan was subject to stakeholder consultation and scrutiny, and identifies balanced revenue budgets in both 2019/20 and 2020/21;
- the assumptions used in the production of the Medium Term Financial Plan appear to be appropriate;
- the Council is investing in the Council Savings and Transformation Programme and there are sufficient risk mitigations in place to support the delivery of the savings plans;
- the Council currently holds healthy revenue reserves, although these are forecast to reduce over the period of the Medium Term Financial Plan; and
- Ofsted inspectors noted continuing improvements in the Council’s arrangements over the 2018/19 financial year, and in their reinspection report published in May 2019 gave an overall assessment of ‘Requires improvements to be good’, an improvement from the previous ‘Inadequate’ rating.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 15 to 21.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	<u>2018/19 outturn</u> The draft 2018/19 financial statements show a net revenue spend of £211.254m against a revised budget of £215.037m, reflecting a £3.783m underspend (1.8%). Overspends in Children, Adults and Health (CAH) (£1.749m) and Environment and Communities (ECS) (£0.367m) were offset by an underspend in Corporate and Central Services (CECR) (£1.883m) meaning that the Corporate Allowance contingency budget (£4.016m) which was designed to cover any emerging budget pressures within CAH in year was not required to be utilised. The target Council Savings Programme (CSP) and Council Transformation and Savings Programme (CTSP) savings for 2018/19 were £9.173m. At outturn, £7.143m of permanent savings had been achieved with £2.030m short term savings delivered whilst permanent solutions for these are developed. The outturn position has presented the Council with an opportunity to use part of the revenue underspend to support new service investments and opportunities. An example of this was the production of the South Gloucestershire News which was issued to residents in June 2019 following the Council's Budget and Savings Plan consultation in October 2018 found that only 41% of respondents agreed that the Council keeps them informed about the services it provides. Cabinet was asked to approve the establishment of a Service Investment and Opportunities reserve with £1m of the underspend to fund further service opportunities in 2019/20. The outturn capital spend was £70.145m against a revised budget of £150.839m, reflecting 46.5% of planned expenditure. The largest single underspend relates to the £50m Property Investment Fund which was included in the budget but that remained unutilised in 2018/19. The Council always recognised that the use of this Fund in 2018/19 would be challenging as by their nature, any investment transactions that they may wished to have entered into require a sufficient lead in time. The Fund is held to allow flexibility should opportunities arise to invest and as such it is not profiled across years. Excluding this, the remaining underspend of circa £30m (20%) largely relates to slippage of capital plans into future years. The Council will need to ensure that slippage on transformational change capital spend (£1.331m) does not have a knock-on impact on the revenue budget if planned savings from transformation change need to be re-profiled and more detailed budget profiling will be undertaken during 2019/20 to reflect planned spend. <u>Arrangements for monitoring and managing the delivery of the budget</u> Quarterly revenue budget monitoring reports are discussed publicly at Cabinet meetings. Reporting includes the projected year end outturn and details financial performance and pressures in each of the directorates. Reporting also includes detail on key revenue streams, such as Business Rates and Council Tax, along with an update on the Council's savings programmes and reserves. The covering reports are supplemented with more detailed reports for each service area, cabinet portfolio and directorate to allow more detailed review and scrutiny of the budget position. Changes from the prior quarter are detailed to provide members with sufficient information to understand differences in the reported position. An example of how the Council actively manages the budget is the Resilience Team that was created in year as a self-financing solution to expenditure pressures that became apparent within the CAH budget following the Quarter 1 budget report. Demand pressures relating to direct payments and packages of care for clients within their own homes were noted, and these were exacerbated by market pressures which resulted in the Council having to commission providers who charge a much higher hourly rate to provide care packages for some cases. The Resilience Team was created, directly employing community based care staff to provide care packages, with the additional staff cost offset by the reduction in the costs of outsourcing care packages to external care providers. The team were successful in managing the budget pressures and continue to be in place for the 2019-20 financial year.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	Arrangements for developing the 2019/20 budget and the updated medium term financial plan

Arrangements for developing the 2019/20 budget and the updated medium term financial plan

The budget setting process followed a similar timescale to previous years, allowing for scrutiny at a number of stages throughout its production. Cabinet discussed and agreed the overall 2019/20 budget assumptions in July 2018 and then considered the initial draft revenue and capital budgets and the Medium Term Financial Plan (MTFP) in October 2018. The updated revenue and capital budgets and MTFP were reported in the February 2019 Cabinet budget report and subsequently adopted. The Council also undertakes public consultation on its revenue and capital budgets, and the results of this consultation are included as part of the February 2019 budget appendices.

Scrutiny of the budget is undertaken by Scrutiny Commission and a Budget Scrutiny Task Group was created in 2018/19 with a lead representative from each party and co-chairs of scrutiny who sat on this. The group met in September 2018, November 2018, and twice in January 2019. The purpose was to ensure that members were engaged as part of the budget process, and it also provided a forum in which to develop their understanding of the Council's financing, with the aim of improving the effectiveness of scrutiny. The meeting in November 2018 included information on the Chancellor's Autumn Statements and a briefing on the potential changes to the Local Government finance system. Programme plans for the Council's Transformation and Savings Programme and the provisional Local Government settlement were discussed in January 2019. Members were positively engaged in the process and this is an example of how the Council continues to evolve it's budget setting process to ensure appropriate scrutiny and member involvement.

The below table sets out the revenue budget position identified in the latest MTFP.

	2019/20	2020/21	2021/22	Cumulative total
Savings required	£5.7m	£7.8m	£5.2m	**£18.7m**
Use of financial risks reserve	£3.1m	£9.3m	£1.8m	**£14.2m**
Revenue deficit	Balanced budget	Balanced budget	£3.8m	**£3.8m**

The previous iteration of the MTFP reported a similar position, with balanced budgets to 2020/21 and a £3.3m deficit in 2021/22. Savings required to 2021/22 in the current MTFP are £3m less than reported in the previous version, however there is an increased reliance on the use of the financial risks reserve in 2019/20 and 2020/21, increasing from £3.9m in the previous iteration to £12.4m. The increase reflects the Council's use of the Financial Risks Reserves to support budgets in the short term to allow time for savings to be implemented and delivered, especially those in CAH which focus on demand management and changing behaviours. By their nature these savings may be realised in the medium-term rather than the short-term and as such the Council has prudently profiled the benefits expected from these into future years. It should be noted that the previous MTFP forecast a net use of the financial risks reserve of £7.2m in the 2018/19 financial year, however the Council's 2018/19 financial statements show an increase in the reserve of £3.7m, partly due to the reallocation of the Corporate Allowance which was not required in 2018/19.

Funding assumptions in the MTFP are based on the latest Local Government Finance Settlement data issued in January 2019. The Council continues to benefit from the 100% Business Rates Retention scheme in the West of England Combined Authority (WECA) area, with a £5m benefit built into the budget for 2019/20, though this is not confirmed until after the end of each financial year. In previous years, the Council have received this assumed benefit as a minimum and across 2017/18 to 2019/20, the Council will have benefited from an estimated £18.5m in additional revenue funding through the establishment of the West of England

Key findings

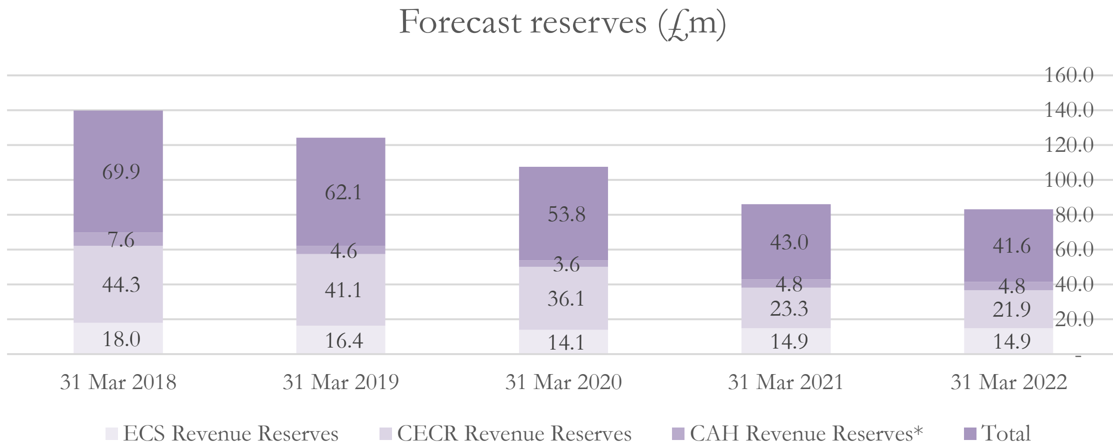
We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	business rates pilot. Following 2019/20 the Council will move to a revised business rates retention scheme, to be defined by the Fair Funding Review to be undertaken by Central Government. This increases the uncertainty for longer term planning for the sector. Increases to the Council Tax precept in 2020/21 and future years are assumed at 1.99% for planning purposes, which is in line with others in the sector and is deemed prudent based upon the limited information available. Expenditure assumptions related to pay costs are based upon the latest nationally agreed changes, with uplifts for spinal point changes included, and the Council continues to set aside additional funds to cover future pay increases. As a result, the assumptions for pay increases are deemed to be appropriate and reasonable, however as a significant area of spend, and like the rest of the sector, any future pay increases above those assumed would have a significant effect on the Council's revenue budget. Other expenditure assumptions appear to be reasonable and are based upon relevant data. Following the agreement of the budget, Teacher's Pensions notified the sector that a significant increase in employer contributions would be required from 1 September 2019. The Council has been informed that grant funding will be received to finance this increase in 2019/20, and the Council will consider what additional support is available in following years, otherwise this cost will be factored into the next iteration of the MTFP. South Gloucestershire Council, like many others, reported an overspend against the CAH budget in 2018/19. Specific funding is allocated to the CAH budget to reflect the estimated demographic and price pressures for the forthcoming financial years. Net of savings programmes of £2.3m, additional expenditure growth of £11.3m is forecast for the 2019/20 revenue budget for CAH. £3.2m of this increase will be met by a permanent transfer from the Corporate Allowance, with a further £5.2m held within the Corporate Allowance in 2019/20 for managing increasing prices and demand pressures across social care services. <u>Savings</u> 2018/19 is the last year of the CSP, with all planned savings post 2019/20 to be delivered through the CTSP which was developed in 2017/18 and refined throughout 2018/19. This refinement has resulted in some savings being profiled into later years, partially offset by others that have been re-profiled to an earlier delivery date. The net impact is a slippage against the savings originally forecast to be delivered in 2019/20 of £1.5m. This has been mitigated by releasing the CSP Non-Achievement Allowance of £0.6m on a one-off basis to support cash flow as savings are delivered. These changes reflect the re-phasing of savings delivery and not reductions in targets at this point. The Financial Risks Reserve includes a further £2.5m to support transformational change and cushion further delivery risk associated with the CTSP. Details of the respective CTSP schemes for each directorate were reported through Cabinet and each include a RAG rating of progress for each scheme. Of the 2018/19 schemes, all but £30k are reported as being green. The Council's enabling budget is used to provide support to services to aid the delivery of the CTSP. £0.4m has also been set aside in the budget across 2019/20 and 2020/21 to provide additional staffing and technology support on a one-off basis to facilitate the delivery of cross cutting organisational developments and to provide a stable platform for the delivery of the savings programmes. This provides assurance that the CTSP is being actively managed and monitored, and demonstrates that the Council recognises the importance of support and transformational expenditure to support the CTSP. The Council has a strong track record of delivering savings and the medium-term approach to savings identification and delivery ensures that savings are properly considered and developed. <u>Reserves</u> As noted above, the MTFP assumes a significant contribution from the Financial Risks Reserve, which in turn is reliant upon the current forecast for the

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Financial planning and future financial sustainability	Business Rates Pilot and collection fund position in 2019/20 remaining stable. The forecast position for all reserves is shown in the chart below, although it should be noted that the Dedicated Schools Grant (DSG) balance has not been included within the CAH reserve. The DSG balance at 31 March 2019 was in deficit by £11.6m and is not forecast to return to a surplus position in the short term. Forecasts for the deficit recovery plan are being revised in conjunction with the Schools Forum and the Council has reported that a longer term plan for recovery is anticipated to the Department for Education. The forecast fall in reserves from 31 March 2019 to 31 March 2022 is 33%.



Capital

The Capital Budget to 2022/23 is balanced. Total planned programme expenditure is £233.3m, and the main sources of finance are:

- Borrowings and the Economic Development Fund (54%);
- Government grants (25%); and
- Developer contributions such as Section 106 monies and the Community Infrastructure Levy (18%).

Expenditure plans are risk rated, dependent upon whether they are an initial estimate (3) to a position when a contractor has been appointed and completion is anticipated within budget (1). The main areas of spend relate to MetroBus (£27m), schools (£78m), highways maintenance (£35m) and a £50m property investment fund.

As noted earlier, there was a significant underspend in the 2018/19 capital budget and the Council will need to ensure that the phasing and programming of the capital plan is closely monitored to ensure that borrowing and revenue contributions to capital can be budgeted for with sufficient certainty to allow the revenue impact to be properly factored into plans.

Taking the above information into account, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for informed decision making and sustainable resource deployment.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Progress against Ofsted inspection findings	<u>In-year Ofsted monitoring visits</u> Ofsted Inspectors completed four monitoring visits in the 2018/19 financial year in May 2018, August 2018, October 2018 and January 2019. The May 2018 visit was the third monitoring visit since the local authority was judged inadequate in February 2017. The May 2018 inspection noted that the Council had continued to implement its improvement plan and that progress had been made in some areas to improve services for children and young people in care in South Gloucestershire. The monitoring visit noted that pace of improvement had started to increase, and that the next step was to accelerate this progress. Significant investment by the Council supported the improvements seen by inspectors during this visit, and whilst this suggested a positive trajectory, inspectors noted that the senior management team recognised that a number of areas continued to require improvement and that there was still much to do. The Council introduced a number of new, revised or updated standards and protocols at the beginning of the financial year as part of the delivery of the improvement plan such as ‘Ten core practice standards’, ‘Decision making and visiting standards’, ‘Permanence planning protocol’ and other supervision guidance, and Inspectors commented that these were effective in raising standards in the recording and frequency of social workers’ visits to children, as well as helping to improve managers’ tracking of children’s cases. A new electronic case recording system was also introduced, and Ofsted Inspectors noted that this was well managed and successfully implemented. Staff turnover had also reduced and the Council’s financial investment to increase the number of social workers saw an appropriate reduction in the workload of staff. In their August 2018 monitoring visit, Inspectors noted that the Council had transitioned into the second phase of its improvement plan. The scope and pace of improvement was adjudged to have been steady and realistic. The monitoring visit notes that senior leaders had maintained a consistent focus on improving outcomes for children and that delegated authority for carers, which had previously been an area of weakness, was now well established. Social workers were noted to have manageable caseloads which was enabling them to spend more time with children and, increasingly, to undertake effective direct work to improve children’s outcomes. The report again noted that the quality of assessments and plans was still too variable and that direct work was not consistently provided for all children when they need it. By the time of their October 2018 monitoring visit Inspectors noted that the Council had made some good progress in improving services for its care leavers and that the Council and senior leaders had continued to embrace the role of corporate parents, taking purposeful and creative steps to improve outcomes for care leavers. The report noted a number of areas where improvement actions had been taken. In some cases, improvements were still embedding with a view that they provided a consistently good service, whilst in others it was still to early to properly conclude on the effectiveness of the second phase of the improvement plan. The report also noted the greater involvement and commitment of members to improvements in the services. The last monitoring visit undertaken in January 2019 concluded that the Council continued to make increasingly secure progress in improving services for children in need of help and protection and for those receiving support from the disability services. It stated that senior managers had addressed the weaknesses in the access and referral teams identified at the first monitoring visit in September 2017 and Inspectors noted continual improvement in the quality of services for children in the 0–25 disability services. Despite challenges, the quality of service that children in need of help and protection receive from the access and response teams had also improved. Inspectors also commented that the pace of improvement had increased. The monitoring visits completed throughout the 2018/19 financial year therefore show continued improvement in the services being provided. Each monitoring report notes steady improvements that were made and identify an improvement trajectory, the pace of which continued to grow throughout the year. Throughout their monitoring reports, Inspectors note the involvement and commitment of senior managers, and in later reports comment on the involvement of members

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Progress against Ofsted inspection findings	as part of the improvement journey. The reports show a timeline of events whereby the Council invested in its people and, systems and policies and guidelines at the beginning of the financial year, and that these embedded throughout the year to contribute to the better outcomes for service users as well as for Council staff. <u>Improvement plan</u> In June 2018 the Council published phase two of its improvement plan, and this was presented to Cabinet in July 2018. The phase two plan was produced after the Improvement Board, which meets monthly and reviews progress against the improvement plan, identified that progress against the phase one plan demonstrated that over 80% of the improvement actions originally identified had been completed. The Improvement Board therefore agreed that a phase two improvement plan should be developed to build on the progress delivered through the phase one improvement plan and focus on identified areas for further work. The phase one plan responded directly and specifically to the recommendations made in the 2017 inspection report, whilst the phase two plan focused on achieving and sustaining quality practice. This evidences a switch between more the immediate actions required to address shortcomings in the service to a phase of sustaining improvements and embedding changes into the service. The phase two improvement plan identified six improvement themes, as set out below: • Quality Strengths Based Practice • Strong and Stable Workforce • Early Help and Partnerships • Child Exploitation and Risk • Quality Assurance Activity • Children's Voices The phase two plan then sets out, against each of the six themes, the specific outcomes desired, as well as a target date and the measures of success which demonstrate how the Council will know that the outcome has been achieved. The plan was subject to scrutiny and challenge by the monthly Improvement Board and its independent chair, which is attended by the Chief Executive, Lead Member for children's services and the Department for Education. A monthly Quality Practice Forum was created from July 2018, to begin the building of a continuous improvement learning system. <u>Improvement Board progress update</u> The independent chair of the Improvement Board presented his second update report to Cabinet in July 2018, setting out the work of the Board and the key achievements. It confirmed that the Improvement Board has met monthly since its inception in March 2017 and that the Board had benefitted from the active engagement of the Chief Executive, the Director for CAH, the Head of Service and other key senior managers. All political parties are represented on the Board and the level of cross-party commitment to improving services to children was described as positive.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
Progress against Ofsted inspection findings	The update also noted that since the last update report to Cabinet, the Improvement Board had received a number of reports which have offered reassurance in some key areas of service provision. Most notably, the 0-25 service was noted to be in a much healthier and safer place than it was in 2016, and that efforts to improve the work of the Access and Resources Team and the Multi-Agency Safeguarding Hub were reported to be increasingly effective. A new Director for CAH was appointed by the Council in year, and the update report noted that the single most important factor in determining the future progress of the service would be their leadership. <u>Inspection report</u> Between 4 and 15 March 2019, Ofsted completed an inspection of children's social care services in South Gloucestershire. The inspection report was released in May 2019, and gave an overall assessment of 'Requires improvements to be good', an improvement from the previous 'Inadequate' rating. The report states that "Since the local authority was inspected in 2016 and judged to be inadequate, senior leaders have, following a slow start, made some gains in improving the majority of services for children and young people in South Gloucestershire. Recently accelerated progress against the improvement plan has ensured that outcomes for most children are now improving in most areas of the service, but not all recommendations from the inspection in 2016 have been fully addressed. The quality of service for care leavers has recently declined. While management arrangements have been strengthened under the leadership of the current director of children's services, this has not had a demonstrable impact on the quality of practice in some areas of the service and a significant improvement journey remains." The report sets out thirteen areas of improvements that are needed, and the Council will need to consider each of these and ensure that their improvement plan and other work is designed to ensure that these are met. Despite a number of areas where improvement is still required, the Council has demonstrated continued progress against the findings of the previous Ofsted report and as such has received an improved outcome in the Council's latest inspection report. The Council still recognises that improvement is required in a number of areas of the service and it continues to ensure that plans and actions are in place to ensure that these are achieved. **Taking the above information into account, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for informed decision making and sustainable resource deployment.**

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.

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

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, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of the Council's Housing Benefit Subsidy Claim	TBC*	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 expected fee for this work in comparison to the total fee for the audit of £100,046 and in particular relative to Grant Thornton UK LLP's turnover overall is not expected to be significant. The fee is set based upon the level of work required, with a baseline fee and then agreed additional costs for any additional work required due to errors. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of the Council's Teacher's Pension Return	4,200	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 base fee for this work is £4,200 in comparison to the total fee for the audit of £100,046 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is set and has no contingent element. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

* Our testing on the 2018-19 subsidy claim has yet to begin. The final cost is dependent upon the findings of the certification work, and the final fee will be reported to Audit & Accounts Committee once the certification has been completed.

Action plan

We have identified 6 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 2019/20 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
Amber	In 2018/19 the Council developed system reports from Civica in order to provide detailed transaction listings that could reconcile to Note 8 of their financial statements. We used these reports in 2018/19 to select our income and expenditure samples. In doing so we identified that the Council does not separately record internal recharges, and whilst the Council correctly excludes them from their Comprehensive Income and Expenditure Statement at year end this is completed via a manual process. There is a potential risk that recharges are not identified as part of this year end process.	Management should review their ledger coding structure and consider separately identify recharges to allow a more automated process at year end to remove recharges from the Council's financial statements. **Management response** Management are in agreement with this recommendation. A working group is being set up to revise coding protocols to ensure an efficient and accurate year end process in eliminating recharges from the Council's financial statements.
Amber	Our testing of revenue expenditure funded by capital under statute (REFCUS) identified an element of costs that were capitalised in respect of Disabled Facilities Grant officers. Their salary costs were included, which is appropriate under International Accounting Standard (IAS) 16, however there was also a mark-up of circa 40% applied to the salary costs which included overhead costs which cannot be capitalised per IAS 16. As such, the basis of the overhead calculation used is inappropriate under IAS16 and these costs should not have been capitalised. The error identified in 2018/19 was circa £76k.	Management should ensure that overheads are not included within capital expenditure, including expenditure classed as REFCUS. **Management response** Management are in agreement with this recommendation. We believe the error identified is isolated to the Disabled Facilities Grant REFCUS transaction, but we will be reviewing processes and procedures to ensure this does not occur in future.
Amber	Our audit testing identified a potential understatement of assets valued in year due to build cost data changing from the date of valuation to the year end. There is a risk that if valuations are undertaken earlier in the year and not reviewed at year end that a material difference could exist. Management do complete an indexation exercise of all land and building assets not valued in year, but this only includes land and buildings not subject to an in-year valuation and also excludes any components included in the 'Vehicles, Plant, Furniture and Equipment' classification.	Management should ensure that all assets valued prior to year end are included in the indexation exercise undertaken at year end, using appropriate inputs, to ensure that a material difference does not exist at year end. This indexation exercise should also include all building components included in the 'Vehicles, Plant, Furniture and Equipment' classification. **Management response** Management are in agreement with this recommendation. In future, all Land and Buildings assets (including components) will be included in the indexation exercise. Finance and Property officers are considering developments to the valuation timetable and processes to ensure that year end data can be incorporated into asset valuations where required. This will provide assurance that no material under- or over-statement in the valuation of assets has been reported.

Action plan

Assessment	Issue and risk	Recommendations
● Amber	2018/19 is the first year of implementation of the new revenue standard IFRS 15. Whilst we are satisfied that the Council have reviewed their revenue streams and assessed the impact of IFRS 15 against these, the standard also introduces more extensive disclosure requirements in respect of revenue that are not included in the financial statements. The risk is that the financial statements disclosures do not comply with the CIPFA Code or IFRS 15.	Management should review IFRS 15 and the CIPFA Code and ensure that all required disclosures are included within the financial statements. **Management response** Management are in agreement with the recommendation and will review the disclosure requirements for 2019/20.
● Green	As noted in the section on Going Concern, whilst we agree that management's use of the going concern assumption is appropriate, no written statement was provided by management.	In future years, management should complete a written Going Concern assessment that sets out details of the local authority's ability to continue as a going concern. **Management response** Management are in agreement with this recommendation and will include in the accounting policies disclosure within the 2019/20 and future Annual Financial Reports.
● Green	Following an audit request, it was identified that a central register of leases which identify the properties where the Council is the lessor or lessee is not maintained. There is a risk that information pertaining to the leases that the Council has entered into is omitted from the financial statements.	Management should consider producing and maintaining a central register of all leases to ensure that this information can be easily identified and that the commitments under leases can be identified. **Management response** Management are in agreement with this recommendation. This is already included in our preparation plan for the next year's accounts due to the pending implementation of accounting regulation IFRS 16 from April 2020. This will increase the need for such a register to exist and be maintained, to allow for the relevant accounting entries and judgements to take place.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issue in the audit of South Gloucestershire Council's 2017/18 financial statements which resulted in a management recommendation being reported in our 2017/18 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	During our audit we requested transaction-level reports to support the 'Other services expenses' and 'Fees, charges and other service income' lines in Note 8. The Council does not currently have automated reports created within the Civica ledger to detail these transactions, and therefore had to manually run transaction reports and reconcile these back to the disclosures which was labour intensive and inefficient. The Council should work with Civica to automate this process to improve efficiency.	We discussed the reports with management at our interim audit visit and identified that a solution was still being worked on. During our final accounts audit visit, management were able to provide a detailed transaction report from the Civica system that could be reconciled to Note 8 of their financial statements. We were then able to use this information to select our samples for income and expenditure testing. Although this information was made available by the system, this identified other improvements that could be made to the Council's ledger system and we have raised a recommendation around recharges in Appendix A.

Assessment

✓ Action completed

X Not yet addressed

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 2019.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
As noted earlier in our report, the financial statements were updated to reflect the updated pension liability following the McCloud / Sargeant ruling. The pension liability in the financial statements increased by £13,534k following a recalculation by the Council's actuary. This increase was reversed through the Movement in Reserves Statement to the Pension Reserve. The increase was recorded in the Comprehensive Income and Expenditure Statement as a £5,524k past service cost charge and an increase on the return on assets of £8,009k, with a £1k impact on interest cost. The impact and adjusted totals in the main statements was also updated in the relevant notes to the financial statements.	Dr Children, Adults and Health £3,137k Dr Environment and Communities £1,282k Dr Corporate and Central services £1,105k Dr Remeasurement of the net defined benefit liability £8,009k	Cr Other Long Term Liabilities £13,534k Cr Unusable Reserve £13,534k
Our audit identified that infrastructure assets had not been depreciated by the Council. The Code requires that infrastructure assets are held at depreciated historic cost, and as such a prior period adjustment was required as set out in the disclosures in the updated financial statements. This also required the preparation of a third balance sheet. Management restated prior year figures to show accumulated depreciation on infrastructure assets of £74,941k and a depreciation charge of £12,156k for the 2017/18 financial year. The Comprehensive Income and Expenditure Statement for 2018/19 was updated to reflect the £13,101k in-year depreciation charge for infrastructure assets. This charge reduced the carrying value of property, plant and equipment in the Balance Sheet by a corresponding amount and the charge was reversed to the Capital Adjustment Account through the Movement in Reserves Statement. All respective notes and financial statements were updated t reflect the prior period adjustment and the corrected in-year charge.	Dr Environment and Communities £13,096k Dr Corporate and Central services £5k	Cr Property, plant and equipment £13,101k Cr Capital Adjustment Account £13,101k

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit & Accounts Committee is required to approve management's proposed treatment of all items recorded within the table below. The items below have not been adjusted as they are immaterial:

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position
Our testing of property, plant and equipment revaluations identified that in year capital expenditure was included on top of the gross valuation that was assessed by the Council's property valuation expert. The valuer considers any significant capital expenditure in year as part of their valuations and hence would be double counted. The Council reviewed the asset register and identified total capital expenditure of £4,908k was incurred on assets prior to their valuation in 2018-19 that was double counted and would be overstating the PPE balance. Our review of assets valued in year also identified that specialised assets valued prior to the year end using the Depreciated Replacement Cost methodology could be understated by £14,578k. This is because the BCIS build cost data used as part of the valuation calculation had increased from the date of valuation to the year end. The net potential understatement of property, plant and equipment is therefore £9,670k. The revaluation reserve would be equally understated.	Cr (Surplus)/Deficit on revaluation of Property, Plant and Equipment £9,670k	Dr Property, Plant and Equipment £9,670k Cr Revaluation Reserve £9,670k
Our testing of grant income identified grant revenue of £273k that had been recognised in 2018/19 that should have been recognised in 2017/18. Although the actual error was £273k, extrapolated over the testing population of £44,067k gives a potential overstatement of £1,194k. As an extrapolated error, we would not expect management to adjust the financial statements for this value.	N/A	N/A
Our sample testing of debtors identified an internal recharge balance that was incorrectly included as a debtor which totalled £685k. This was offset by a corresponding creditor. Both balances were found to be overstated by £685k.	N/A	Dr Short Term Creditors £685k Cr Short Term Debtors £685k
The cash in transit shown as a reconciling item in the year-end bank reconciliation was £103k different to the supporting breakdown and information that management provided to support the figure. Although trivial, management were not able to explain the difference.	N/A	N/A

Audit Adjustments

Misclassification and disclosure changes

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

Detail	Adjusted?
It was identified that investment properties became material in 2018/19, however there was no separate disclosure note for investment properties or an accounting policy included within the draft statements. In line with the CIPFA Code a separate disclosure note and accounting policy should be included within the financial statements for all material transactions and balances. The financial statements were updated to include these disclosures.	✓
Our audit testing identified that the Council had excluded investment properties from the lease commitments disclosure in Note 35 of the draft financial statements in 2018/19. The comparator included investment properties and we therefore recommended that the Council ensured that the accounting treatment was comparable between years or that the disclosure made the impact of the change in disclosure clear to the reader of the financial statements.	✓
Our audit identified that the disclosure in Note 7, the Expenditure Funding Analysis, was incorrect and did not disclose the transaction information on a total General Fund basis and did not reconcile to the Council's budget outturn report. Management have reviewed the disclosure and have updated this note accordingly.	✓
We identified that the draft financial statements disclosed 'Children, Adults and Health' gross expenditure in the Comprehensive Income and Expenditure Statement of £353,852k rather than £363,852k which was the correct total. The financial statements were updated to amend this issue. The sub-totals in the draft Comprehensive Income and Expenditure Statement were correct.	✓
We identified that there were errors in the prior period comparative Movement in Reserves Statement when compared to the audited 2017/18 financial statements. The line 'Balance 31 March 2017' incorrectly showed the following figures: 'Total General Fund Reserves' £77,409k - was amended to £83,928k 'Total Usable Reserves' £105,863k - was amended to £112,381k 'Total Authority Reserves' £435,074k - was amended to £441,592k.	✓
In Note 9 of the draft financial statements the total of £13,254k in the 2017/18 column in respect of 'Other capital receipts' was not replicated in the 'Total adjustments between revenue and capital resources' row.	✓
The Capital Adjustment Account disclosure in Note 22 'Unusable Reserves' was updated in the final version of the financial statements as follows: 'Debt repayment funded by capital receipts' added to the disclosure, with a total of £500k. 'Statutory provision for the financing of capital investment charged against the General Fund balance' total adjusted from £500k to £1,100k. 'Repayment of ex-Avon debt' total adjusted from £1,100k to £650k.	✓
The 2018/19 CIPFA Code introduced new disclosure requirements for the breakdown of debtors and creditors in the notes to the financial statements. The draft financial statements were produced using the old disclosure requirements and therefore the notes were updated in line with the new financial reporting requirements,	✓

Audit Adjustments

Misclassification and disclosure changes

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

Detail	Adjusted?
Whilst we are satisfied that the Council has assessed the revenue streams it receives and that there is no material impact on the recognition of revenue under IFRS 15, the CIPFA Code and IFRS 15 require a number of disclosures including a disaggregation of revenues and information on the performance obligations of revenues. The financial statements do not include all of these required disclosures. We have raised a recommendation in Appendix A.	X
The Council added additional accounting policies in respect of the following material transactions and balances: Former Avon County Council Debt Early Payment of Local Government Pension Scheme Deficit Contributions Past Period Adjustments The accounting policies were also updated to reflect the transition to IFRS 9 and IFRS 15, including an explanation that comparators had been prepared under IAS 39 and IAS 18 respectively and setting out the differences.	✓
Whilst all material disclosures are included within the "Nature and extent of risk arising from financial instruments" disclosure, these could be more tailored to the instruments that the Council holds and the associated risks to give the reader a better understanding of the risks that the Council faces.	X
A number of presentational, grammatical and numerical adjustments and additions were made 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.	✓

Fees

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

Audit Fees

	Proposed fee	Final fee	2017/18 Final
Council Audit	£100,046	TBC*	£129,930
Total audit fees (excluding VAT)	**£100,046**	**TBC**	**£129,930**

*Our final audit fee has yet to be agreed and will also require PSAA approval. Additional fees are expected in respect of additional work during the audit in respect of the following:
£3,000 for assessing the impact of the McCloud / Sargeant adjustment
£3,000 for increased work due to increased work on PPE as a result of increased FRC requirements
£3,000 for increased work due to increased work on IAS 19 pension entries as a result of increased FRC requirements
£5,000 for consideration and clearance of technical queries in respect of the Council's negative Dedicated Schools Grant reserve and review and agreement of the prior period adjustment in respect of infrastructure asset depreciation

The Council have accrued for the scale fee in their financial statements. The additional fees should be accrued and reported in the 2019/20 financial statements.

Non Audit Fees

Fees for other services	2018/19 Fees	2017/18 Fees
Audit related services:		
Certification of the Council's Housing Benefit Subsidy Claim	TBC**	£12,307
Certification of the Council's Teacher's Pension Return	£4,200	£4,200

**Our testing on the 2018-19 subsidy claim has yet to begin. The final cost is dependent upon the findings of the certification work, and the final fee will be reported to Audit & Accounts Committee once the certification has been completed. Per below, the Council have accrued £22,250 in respect of this work.

Reconciliation to Note 30 of the financial statements

Fees for other services	Value
Included in Note 30 'Fees Payable to Grant Thornton UK LLP for other services provided in the year'	
Housing Benefits subsidy audit 2018/19 estimated cost	£22,250
Additional fee for 2017/18 Housing Benefit Subsidy audit agreed following 2017/18 financial statements audit	£2,858
Certification cost for the 2018-19 Teacher's Pension Return	£4,200
Under-accrual of 2017/18 Teacher's Pension cost	£3,119
Total	**£32,427**

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Gloucestershire Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account and notes to the accounting 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Financial Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Financial Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Head of Financial Services is responsible for the other information. The other information comprises the information included in the Annual Financial Report, 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 of the Authority 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 this 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' 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 matter 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 gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the statement of accounts in the Annual Financial Report 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.

Audit opinion

Responsibilities of the Authority, the Head of Financial Services and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities, 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. The Head of Financial Services 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Financial Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Financial Services 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 Accounts 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.

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

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate
We certify that we have completed the audit of the financial statements of the South Gloucestershire Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.