Grant Thornton

The Audit Findings for South Gloucestershire Council

Year ended 31 March 2022

March 2023

Contents

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

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

Mark Stocks

Name : Mark Stocks

For Grant Thornton UK LLP

Date : January 2023

1. 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 2022 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed with a hybrid of on-site and remote working between July and January. Our findings are summarised on pages 7 to 20. The accounts and working papers presented for audit were of a good quality.

Audit adjustments are detailed in Appendix C. There are no adjustments that result in changes to the useable reserves available to the Council.

Our audit identified three substantive issues.

The first of these relates to the Minimum Revenue Provision (MRP) made by the Council. We disagree with the Council's calculation of their Minimum Revenue Provision (MRP). The Council has funded MRP by capital receipts and the Statutory Instrument setting out the use of capital receipts does not allow for this. This has led to an under provision of MRP of c£4m over the last three years. This is offset against the balance held of £14.877m from over provision in prior years and it is possible to reclassify the revenue contributions made to capital as MRP. This matter remains under discussion with the Council.

The second relates to assets not valued during the year and assets revalued prior to the year end. We estimate that the value of these assets is understanded by c£6m and £3.4m respectively. As the values are material we are in discussion with the Council as to whether an adjustment to the accounts is required.

The third relates to the Council's Credit Loss Allowance. The Council has a large value of debt over one year old that it has not provided for. We estimate that an additional credit loss allowance of c£3.3m is warranted. We also note that the Council has significant debt outstanding with a debtor (£1.48m)and that it is in dispute over a debt with a second debtor (£1.517m). The Council will need to monitor the collection of this debt closely and the potential impact on its reserves if the debt is not collected.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matter;

- receipt of management representation letter.

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.

Our anticipated audit report opinion will be unmodified.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements (with regard to Children's Social Care) and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's Whole of Government Accounts submission. The auditor guidance for 2021/22 has yet to be issued and as such, we will not be in a position to issue the audit certificate with our audit opinion.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the outstanding matters outlined on page 3.

Subject to these outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Accounts Committee meeting on 24 January 2023.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 28 June 2022.

We detail in the table to the right our determination of materiality.

	(£)	Qualitative factors considered
Materiality for the financial statements	9,500,000	We considered materiality from the perspective of the users of the financial statements. The body prepares an expenditure based budget for the financial year and monitors spend against this, therefore gross expenditure was deemed as the most appropriate benchmark. This benchmark was used in the prior year. We deemed that 1.5% was an appropriate rate to apply to the expenditure benchmark.
Performance materiality	6,650,000	The body does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	500,000	Calculated as a percentage of headline materiality and in accordance with auditing standards.
Materiality for senior officer remuneration	100,000	Due to public sensitivity.

2. Financial Statements – Significant risks

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

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

Risks identified in our Audit Plan	Commentary
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 risk can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we rebutted this risk within the Audit Plan 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. There has been no change to the above assessment reported in the Audit Plan. Therefore we do not consider the fraudulent recognition of revenue to be a significant risk for the Council. Our audit work has not identified any issues in respect of revenue recognition.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be created than the risk of material misstatements due to fraud related to revenue recognition2. Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to e treated as a significant risk for the audit.	We rebutted this risk within the Audit Plan because: • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position. There has been no change to the above assessment reported in the Audit Plan. Therefore we do not consider the fraudulent recognition of expenditure to be a significant risk for the Council. Our audit work so far has not identified any issues in respect of expenditure recognition. As per page 3, we are yet to conclude on our work in this area.

2. Financial Statements – Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. As previously mentioned to the Audit and Accounts Committee, journals do not require approval prior to being posted to the system. Budget holders do however provide some level of check as they should review all postings. For year-end journals there is a review procedure prior to the journals being input e.g. pensions, assets, collection fund etc. and a post input review that the accounts are as expected. We consider that this increases the risk of fraud or error. There are three IT officers with 'superuser' access. This allows changes to be made to financial systems without authorisation.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals. We increased the level of our testing as the majority of journals are not subject to a two-factor authorisation process; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; • tested financial transactions or journals posted by officers with superuser access; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our sample testing has not identified any significant issues in respect of journals posted in year. We identified two control weaknesses: Journals can be posted and authorised by the same member of staff. We consider that this weakens the control environment a control weakness that one-sided journals can be posted. We consider that this heightens the risk that there is error in the financial statements due to errors being made in the posting of journals or inappropriate journals being posted. We have raised recommendations on page 27 in relation to these matters. We also gained an understanding of accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence. In particular, we reviewed accounting for pensions and PPE. We discuss this later in our report. We also reviewed the accounting and modelling relating to the NDR pool. Our work did not identify any material issues. We evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We did not identify any significant changes in accounting policies or estimates. Neither did we identify any significant unusual transactions. We note that the Council posts a significant level of internal recharges. We identified an error of £11m in internal recharges and have recommended that these are reduced (as this reduces the risk of error in the financial statements. We also identified through our sampling procedures that a number of transactional listings had high absolute values. This included fees and charges income, debtors and creditors listings. This results in a large proportion of the transactions within the listings having no impact on the total income for the period, or the year end debtor and creditor balances. This increases the level of audit testing and increases the risk of error in the financial statements. We have raised a recommendation on this matter. In summary, our work did not identify any evidence of management override of control.

2. Financial Statements – Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net 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 (£422m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We therefore identified assumptions used in the valuation of the Council's pension fund net liability as a significant assessed risk of material misstatements.	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 evaluated the design of the associated controls; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report; • obtained assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements; • evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of their work; • assessed the competence, capabilities and objectivity of the actuaries who carried out the Council's pension fund valuation; and • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report. We have not identified any significant issues in this area. We have included a further detailed assessment in section '2. Financial Statements – key judgements and estimates' on page 15.

2. Financial Statements – Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council revalue its land and buildings on a rolling five-yearly basis. This valuation represents s significant estimate by management in the financial statements due to the size of the number involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified the assumptions used in 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 the valuation experts and the scope of their work; • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA Code are met; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • engaged our own valuer to support our assessment of instructions to the Council's valuer, the Council's report and the assumptions that underpin the valuation; • evaluated the assumptions made by management for any assets not revalued during the year and how management have satisfied themselves that these were not materially different to current value at year end; • evaluated the competence, capabilities and objectivity of the valuation expert; and • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register and accounted for correctly. Note we have included a further detailed assessment in section '2. Financial Statements – key judgements and estimates on page 13.
Valuation of Investment Property The Council revalue its investment properties on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This value represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Management engage the services of an internal valuer to estimate the value at the balance sheet date. We therefore identified the valuation of investment properties, particularly revaluations and impairments, as a significant risk.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA Code are met; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • evaluated the competence, capabilities and objectivity of the valuation expert; and • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register and accounted for correctly. Note that we have included a further detailed assessment in section '2. Financial Statements – key judgements and estimates on page 14.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Commentary
Value of infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note Infrastructure assets include roads, highways and streetlighting. As at 31 March 2021, the net book value of infrastructure assets was £260m which is a significant multiple of materiality. In accordance with the CIPFA Code, infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address: 1. The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of infrastructure assets is overstated. It will be overstated if management do not derecognise components of infrastructure when the are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk as the planning stage, but we have assessed that there is some risk of material misstatement that requires an audit response. We also note that we identified an error in the calculation of infrastructure depreciation in 2020/21.	We have: • reconciled the Fixed Asset Register to the Financial Statements • using our own point estimate, considered the reasonableness of the depreciation charge to infrastructure assets • documented our understanding of management's process for derecognising infrastructure assets on replacement and obtained assurances that the disclosure in the PPE note is not materially misstated. We have not identified any issues from our work in this area.
Senior Officer Remuneration With a lower materiality applied owing to the sensitivities around these disclosures, there is heightened risk that a material misstatement may occur.	We have: • gained an understanding of the process used for recording Senior Officer Remuneration and evaluated the procedures; and • agreed, on a sample basis, entries in the remuneration report to payroll evidence and pension disclosures. We have not identified any issues from our work in this area.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Commentary
Section 31 debtors In our 2020/21 audit we identified an error of £8.5 million relating to Section 31 (business rates) grant debtors. This related to a duplication of Section 31 grant which was prepaid in March 2020 (and correctly accounted for) but then also accrued for at year end in 2020/21. The error resulted in an overstatement of £8.5 million in NNDR income and Collection Fund Debtors.	We have: • reviewed the Council's arrangements for reconciling Section 31 grant debtors to amounts due from the Government; and • reviewed funding letters and reconciled transactions to the general ledger for any accounts that might not have been disclosed. We have not identified any issues from our work in this area.
City Region Pooled Funds The Council has entered into a City Region Deal with its partners. This pools NNDR funds collected. The amounts involved were significant (c£30m) in 2020.21. The accounting for the funds is complex and funds are shared in accordance with an agreed accounting model. In 2020/21 we identified that both gross income and gross expenditure were overstated in the Council's Comprehensive Income and Expenditure Account (CIES). There was no impact on the Surplus/Deficit on the Provision of Services. The Council amended its statements of accounts to correct the position.	We have: • agreed disclosures to supporting working papers; • ensured that all transactions within the pooled budget are within the CIES, and where they are not, they do not belong to the Council; and • ensured that the accounting model remains appropriate. We have not identified any issues from our work in this area.
Credit loss allowances – collection fund The Council received income from a number of sources including fees and charges, council tax, and business rates (NDR). IFRS9 requires the Council to made adequate provision against future credit losses against these income sources. In 2020/21, with regard to business rates impairment allowances in the Collection Fund we noted that the Council had significantly reduced its assumptions on collectability of debt. We estimated that the Council's estimation of impairment of this debt was too high.	We have: • reviewed the collection fund credit loss allowances for compliance with IFRS9. We identified that the Appeals Provision was overstated by £915,000. This is a complex estimate and estimation uncertainty exists. We have reported this as an unadjusted error.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £565m	Land and buildings comprises 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 are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged with their internal and external valuers to complete the valuation of properties as at 31 March 2022, with the full portfolio valued on a cyclical basis. 90% of total assets were revalued during 2021/22. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2022. Management have concluded that there has not been a material movement in the value of these properties. This is due to there not being a significant amount of time passing since the majority of the items were last revalued and is based upon the experience of the valuer and the fact that the use of the assets remains the same. The total year end valuation of land and buildings was £565m, a net increase of £55m from 2020/21 (£510m).	We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included: • an assessment of the management's expert, who we found to have relevant experience and professional qualifications; • review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; • review and challenge of the inputs and assumptions applied in the valuation to ensure that these appeared to be reasonable and appropriate based upon source data or other corroborative evidence; • engaging our own expert valuer in this process; • assessing the impact of any changes to valuation method; and • an assessment of the adequacy of disclosure of the estimate in the financial statements. We have identified two assets recognised as Assets Under Construction (AUC) at 31 March 2022 which were operational at this date. These should therefore have been recognised as operational assets within the financial statements and valued appropriately for this category. This has been detailed on page 32.	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £72m	The Council have significant investment properties, which are required to be revalued annually. The Council has engaged with their internal and external valuers to complete the valuation of all investment properties as at 31 March 2022. The total year end valuation of investment property was £72m, a net increase of £9m from 2020/21 (£63m).	We have reviewed the detail of your assessment of the estimate, considering the revised requirements of ISA 540. Our work included: • an assessment of the management's expert, who we found to have relevant experience and professional qualifications; • review of the completeness and accuracy of the underlying information used to determine the estimate, including the re-calculation of valuation figures using national indices to determine specific asset valuations that warrant further review; • review and challenge of the inputs and assumptions applied in the valuation to ensure that these appeared to be reasonable and appropriate based upon source data or other corroborative evidence; • engaging our own expert valuer in this process; • assessing the impact of any changes to valuation method; and • an assessment of the adequacy of disclosure of the estimate in the financial statements. Our work is concluded in this area and we have not identified any issues.	

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £422m	See below	See below	

Summary of management's approach

The Authority's net pension fund liability represents a significant estimate in the Authority's financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£422m) and the sensitivity of the estimate to changes in key assumptions. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. There has been a £42m net actuarial loss during 2021/22.

The methods applied in the calculation of the IAS19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Authority Accounting (the applicable financial reporting framework) We have therefore concluded that there is not a significant risk of material misstatement in the IAS19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS19 estimates is provided by the administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions(discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS19 liability. We have therefore concluded there is a significant risk of material misstatement in the IAS19 estimate due to the assumptions used in the calculation. With regard to these assumptions we have therefore identified the valuation of the Authority's pension fund net liability as a significant risk.

Audit Comments

In assessing the estimate we have considered the following:

- the actuary's experience, competence and professional qualifications;
- the actuary's approach, through the use of PwC as an auditor's expert, used to assess the methods and assumptions used (see below table for consideration of assumptions adopted);
- the completeness and accuracy of the underlying information used to determine the estimate by comparing it to source records and other data provided through the audit;
- the impact of any changes to valuation method (none were noted);
- the assurances provided by the auditor of Avon Pension Fund over the processes and controls in place at the Fund over the information provided to the actuary; and
- the adequacy of disclosures of estimates in the financial statements.

The actuary used an estimated return on the scheme assets for March 2022, as they have in prior years. We did not identify any material issues arising as a result of this estimation uncertainty.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.80%	2.70% to 2.80%	
Pension increase rate	3.40%	3.00% to 3.50%	
Salary growth	4.90%	3.90% to 5.90%	
Life expectancy – Males currently aged 45 / 65	23.1 / 24.6	20.7 – 23.3 / 22.2 – 24.8	
Life expectancy – Females currently aged 45 / 65	25.3 / 27.3	23.8 – 25.5 / 25.7 – 27.5	

We have concluded on our work in this area and have not found any significant issues.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Waste PFI liability	The Council use a financial model to estimate the various elements of the future financial liability of the waste PFI scheme.	We have: • updated our review of your accounting treatment to ensure it is appropriate; • compared accounting entries in the financial statements to your PFI model; and • compared your accounting entries to a Grant Thornton model. We noted that the model for 2021/22 included a number of amendments to prior year figures. The cumulative variance in 2021/22 was below our triviality level and therefore no amendment was required.	
Minimum Revenue Provision - £1.8m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. We consider that management's MRP policy is in line with the statutory guidance. Management's approach is set out in the Treasury Management and Investment Strategy. The year end MRP charge was £1.793m, a net increase of £150XXk from 2020/21 (£1.643m).	We disagree with the Council's calculation of their Minimum Revenue Provision (MRP). The Council has funded MRP by use of capital receipts and the Statutory Instrument setting out the use of capital receipts does not allow for this. This has led to an under provision of MRP of c£4m over the last three years. This is offset against the balance held of £14.877m from over provision in prior years and it is possible to reclassify the revenue contributions made to capital as MRP. This matter remains under discussion with the Council. Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. The Government will issue a full response to the consultation in due course.	

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals	The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	The Council has made a provision for the Business Rate appeals that have been received but not settled at year end and an assessment of potential appeals. The Council's estimate is based on the likelihood of various types of claims having to be settled and the estimated value of the settlement. The Council's provision follows a similar basis to the previous year and overall we are satisfied with the approach taken and that the provision is not materially misstated. We have challenged the basis of this provision and in so doing reviewed appeals and payments to date. We identified that the provision was overstated in the draft financial statements by £915k. We have reported this as an unadjusted error. No further issues were identified.	
Debtors	The Council have recognised a debtor with a company for £1,517k. The invoice for this amount was sent to the company in January 2018 and there has been a dispute over the invoice since this date. The invoice is in relation to a Section 38 Agreement under the Highways Act 1980 for November 2010. The Council and the company have engaged in legal proceedings to rectify the dispute. Proceedings have been issued in the Construction and Technology High Court, with the company filing a defence in October 2022. As at 31 March 2022, the Council view the amount as fully recoverable on the basis that the Council believe that the company has no defence.	The Council has included the full amount within the debtor balance, with no related provision. As the dispute is ongoing and has made it to the High Court, with the company filing a defence, it is unclear whether it is appropriate to recognise the full amount within debtors. We consider that this represents an uncertainty within the financial statements.	

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Accounts Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit and Accounts Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bank and related investment and borrowing entities. This permission was granted and the requests were sent. All responses have been received with no issues noted.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	The majority of information and explanations requested from management have been provided, noting that our work continues in certain areas.

2. Financial Statements - other communication requirements

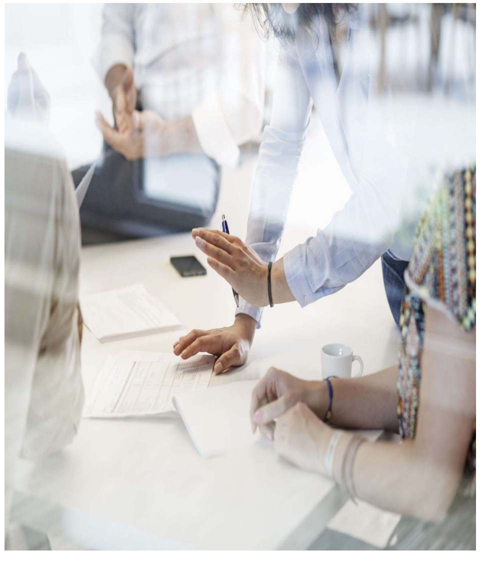
Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
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. The 2021/22 audit guidance has yet to be issued. As such, we will hold the certificate for our audit until we are able to complete the required procedures once these are known.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of South Gloucestershire Council in the audit report, as detailed in Appendix E, due to incomplete WGA work as noted above.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see appendix E.

Risk of significant weakness	Conclusion	Outcome
The Council is falling behind in implementing recommendations made by OFSTED on children's services in the Council. In December 2021 OFSTED identified recommendations that were yet to be implemented and made a judgement that Children's services have areas for priority action. We will assess the Council's response to the OFSTED report.	The council is falling behind in implementing recommendations made by OFSTED on children services in the Council. Following a focused visit to the children's services in December 2021, OFSTED identified recommendations that were yet to be implemented and made a judgement that Children's services have areas for priority action. We acknowledge that the council is making strides towards addressing the issues identified and have made progress but this issue is being raised as a matter of significant weakness for the following reasons: • Some of the issues were first raised in 2019 and do not appear on the Council's Strategic Risk Register SRR, • The Council had an improvement plan in place six months before OFSTED's focused visit but OFSTED still issued an improvement notice to the council implying the plan may have been deemed inadequate by OFSTED, and • Implications of non-compliance could be severe to the council's reputation and outcomes for local children and families.	Significant weakness identified with the following recommendation made: The Council should prioritise implementation of OFSTED recommendations on children's services contained in the improvement notice dated 2 March 2022 and October 2022. The improvement notices the improvement plan communicated to the council in December 2021 and October 2022. The council should ensure: • a requirement for the council to put in place clear evidence of progression towards implementation, • as well as working with the adviser appointed by the Secretary of State to work with the Council and Department, and • Introduction of appropriate Information Management Systems (including providing staff training on its use) that enables cases to be recorded consistently and accessed real time by the appropriate responsible officers.

3. VFM - our procedures and conclusions

Risk of significant weakness	Conclusion	Outcome
Discussions with senior officers indicate that workforce is a significant challenge. We will review the Council's response to workforce issues and whether it has appropriate arrangements in place to ensure it has an appropriate workforce for key services.	We note that the Council had identified a critical business risk around the wellbeing of its workforce, and in particular its ability to recruit and retain the staff it requires to deliver services. This is in the context of the impact of the COVID-19 pandemic. This risk is highlighted as Amber in the Strategic Risk Register and was also highlighted in the 2020/21 AGS. The Council has well established workforce development and training procedures for staff and a comprehensive Equality Framework is in place which sets out governance arrangements from the most senior levels as well as responsibilities across all levels of the workforce. The Council's commitment to developing its workforce is illustrated in the Corporate Plan, where Priority 4 is concerned with Realising the full potential of our people and delivering value for money. Since 2020/21 the Council has initiated a number of new measures to help address the workforce risks identified and has managed to prevent the identified critical business risk from having a significant impact on service delivery, while workforce management processes are strengthened. In response to the impact of the COVID-19 pandemic, the Council has focused on workforce resilience alongside the implementation of wellbeing support facilities for its staff. We also note that the Council has promoted a programme of support for Women in Leadership. The Council plans to use its workforce wellbeing survey process and quarterly monitoring of sickness absence to enhance its ability to identify and take action on workforce related matters. We not that a Wellbeing Strategy is being developed for 2022/23. Workforce pressures are an underlying factor in the improvement plans in the Children's Service and the Council is in the process of implementing new processes to recognise and provide trauma support and awareness. These new measures are a step in the right direction but will take time to fully embed and we will continue to monitor progress in 2022/23.	From work undertaken, we are satisfied the Council has appropriate arrangements in place to respond to the workforce issues identified. We are satisfied that the Council has arrangements in place to ensure it has an appropriate workforce for key services.

4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

Transparency

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

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged for the financial year to 31 March 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	36,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £36,000 in comparison to the total fee for the audit of £163,109 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Due to the materiality of the amounts involved to our opinion, it is unlikely that there will be material errors arising. The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £163,109 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Due to the materiality of the amounts involved to our opinion, it is unlikely that there will be material errors arising. The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

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

Assessment	Issue and risk	Recommendations
●	We identified through our sampling procedures that a number of transactional listings had high absolute values. This included fees and charges income, debtors and creditors listings. This results in a large proportion of the transactions within the listings having no impact on the total income for the period, or the year end debtor and creditor balances.	The Council should review their processes to ensure more appropriate listings can be produced. **Management response** The processes for producing these listings will be reviewed.
●	Our review of fully depreciated assets identified a number of assets on the asset register with nil Net Book Value brought forwards. We also identified examples of duplicate asset records on the register.	The Council should review the asset register to determine whether these assets are still in use. If they are in use, the Useful Economic Lives should be revisited and if not still in use, these assets should be removed from the asset register. The Council should also review the asset register for duplicate entries and amend as appropriate. **Management response** This will be incorporated into year end procedures.
●	During our journals control environment work, we identified that one-sided journal entries can be posted. This leads to a risk of unbalanced journals being posted to the system	The Council should review their processes to remove the ability to post one-sided journal entries and to ensure that all journals are authorized. **Management response** This will be reviewed as part of the implementation of Microsoft Dynamics planned for April 2024.

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
●	As part of our journals testing, we identified that there is no approval process for posting journals. Although there are some controls in place to minimize the risks associated with this, there are no preventative controls for these journals and therefore this presents an opportunity for fraudulent postings.	We recommend that a formal journals approval process is implemented to ensure that each journal has a separate poster and approver. **Management response** Journal posting procedures will be fully reviewed as part of the implementation of the Microsoft Dynamics planned for April 2024.
●	The Council posts a high volume of internal recharges. We consider that this increases the risk of error in the financial statements.	We recommend that the Council reviews the level of internal recharges and considers whether the volume can be reduced. **Management response** Internal recharge procedures and in particular consideration of setting a high de-minimus level, will be considered before the implementation of Microsoft Dynamics.
●	The Council has a large value of debt over one year old that it has not provided for. We estimate that an additional credit loss allowance of c£3.3m is warranted. We also note that the Council has significant debt outstanding with a debtor (£1.48m) and that it is in dispute over a debt with a company (£1.517m). The Council will need to monitor the collection of this debt closely and the potential impact on its reserves if the debt is not collected.	We recommend that the Council reviews the level of credit loss allowance to ensure it is sufficient and that it continues to monitor the debts. **Management response** The calculation of credit loss allowances requires a judgement on the future collectability of debts. The council has well established monitoring procedures in place and considers that the amounts of credit loss allowances made were appropriate.

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of South Gloucestershire Council's 2020/21 financial statements, which resulted in five recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note three are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	In 2019/20 we issued a report to management highlighting issues on user controls and recommended that progress on implementing these recommendations for improvements is reported to the Audit and Accounts Committee. This is yet to happen. Progress on implementing our IT controls recommendations for improvements is reported to the Audit and Accounts Committee.	Internal Audit conducted an audit of ITD Business Continuity and Disaster Recovery which was issued in July 2022, which is now in the process of being followed up. The opinion was improvements required but there were some strengths identified around the plan including roles and responsibilities, contact information and identification of business-critical systems. The other controls issues raised are substantially complete and will be reported to the Audit and Accounts Committee once completed. Payroll have removed superuser access and revenues and benefits have moved superuser access to financial systems.
X	As previously mentioned to Audit and Accounts Committee journals do not require approval prior to being posted to the system. Budget holders do however provide some level of check as they should review all postings. For year-end journals there is a review procedure prior to the journals being input e.g. pensions, assets, collection fund etc. and a post input review that the accounts are as expected. We consider that this increases the risk of fraud or error and Those Charged With Governance should confirm that they are satisfied with this approach. Review procedures for the authorisation of journals.	To be completed. Journal posting procedures will be fully reviewed as part of the implementation of Microsoft Dynamics planned for April 2024.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	In reviewing grants received in advance, management were not able to evidence the 13% administration fee applied as part of calculating the S106 grants received in advance balance.. In addition for the same contributions management did not have records of the date when pre 2015 contributions were paid to the Council and therefore when the amounts needed to be spent by. This may affect future accounting treatment. We also noted that the Council had omitted to claim for the last instalment of grant as per the agreement in one of the samples we reviewed. Obtain evidence to support the deduction of administration fees from section 106 contributions and the dates pre 2015 developer contributions were made to ensure future accounting treatment for these contributions is correct. Carry out checks to ensure all grant instalments have been claimed for.	This review is ongoing. Progress includes splitting Developers' contributions between current and non-current at 31 March 2022 and reconciling the ledger to subsidiary systems. A full review of accounting procedures for s106 receipts is in progress for completion during the 2022/23 financial year.
✓	Incorrect mapping of cost centre REVSCH was identified by council officers in following up an audit query - mapped to CIES instead of MIRS. Improve controls over the mapping of cost centres to the financial statements.	A year-end journal has now replaced the manual mapping of the movement in reserves for school balances (REVSCH/MIR10).
✓	We noted that the Council did not have a formal letter of engagement with its internal property valuer. This is a mandatory requirement of the RICS Valuation – Global Standards. There was instead a less formal service level agreement in place. Ensure there is a formal signed letter of engagement in place for any external valuers used.	External valuations have formal Terms of Engagement following tender. For internal valuations corporate finance and Property colleagues have fully reviewed and updated the Service Level Agreement ensuring it includes Terms of Engagement, similar to those with an external valuer.

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
A journal eliminating internal recharges was posted to an incorrect cost centre. This has been corrected.	Environment and Communities Income Dr 11,182 Environment and Communities Expenditure Cr 11,182 Corporate and Central Services Income Cr 11,182 Corporate and Central Services Expenditure Dr 11,182	Nil	Nil
Overall impact	£Nil	£Nil	£Nil

C. Audit Adjustments

Impact of unadjusted misstatements

All unadjusted 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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
NDR Appeals Provision	Cr £915	Dr £915	(£915)
Amendments to Note 11 for reclassification of Assets Under Construction (AUC). Our testing identified two assets recognised as AUC at 31 March 2022 which were operational at 31 March 2022 and therefore should have been recognised within operational assets. The reclassification to operational has been undertaken in the final accounts of one asset into land and buildings and the other into infrastructure. However the revaluation has not been input on the basis of materiality for the land and buildings asset.	Dr £3,570	Cr £3,570	£3,570
Under-provision of bad debt provision for both sundry debtors (£1,656k) and NDR (£2,000k). We do not consider the provision in the accounts to be sufficient in these areas. We note that this total excludes the amount outstanding from the company noted on page 17 of this report and the second debtor where a payment plan is in place. The value of these debts are £1.517m and £1.48m.	Dr £3,656	Cr £3,656	(3,656)
Overall impact	Dr £6,311	Cr £6,311	(£6,311)

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure	Details	Adjusted?
Note 11	The fair value hierarchy table for surplus assets was omitted from the draft financial statements.	✓
Note 39	Table updated to include EDF2 balances (closing balance -£1,520k).	✓
Note 1 (iv)	Additional wording has been added to the Accounting Policy for the City Region Deal to clarify the application of IPSAS 23.	✓
Note 12	Direct operating expenses have been restated to exclude net gains/losses from fair value adjustments (£894k).	✓
Note 13	Updates to creditors (-£35k) and debtors figures (+£2,142k).	✓
Note 27	In-year adjustments increased by £249k, and central expenditure reduced by £249k leading to a net nil impact. Parenthesis added for consistency.	✓
Note 30	Capital investment figures revised reflecting adjustments from Investment property and Infrastructure Assets to Property, Plant and Equipment (£10,839k).	✓
Note 35	Update to two tables to include Business combinations line that had been omitted (£2,840k).	✓
Collection Fund	The NNDR provision was overstated by £915k.	✓
Various	A number of presentational, grammatical and numerical adjustments and additions were completed to the financial statements to improve the readability and understandability of disclosures and to ensure that they are in line with the current International Financial Reporting Standards.	✓

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
Note 14 reports an overdraft position on bank current accounts of £8.657m and this is offset against other short term deposits of £21.011m which are described as "*investments in pooled funds and notice accounts where funds can be liquidated with less than three days notice*". The balance sheet reports net assets of £12.545m. On the balance sheet the overdraft should only be offset against the assets when the authority has a legally enforceable right to set off the amounts and the authority actually intends to settle on a net basis. To date we have not seen sufficient evidence that this is the case. The Council believe this shows a true and fair view of the actual position.	0	0	0	Do not agree
There was a duplicate debtor of £658,438 as at 31 March 2021 which was not adjusted for. Were this to be altered, this would decrease debtors and income by £658k.	0	0	0	Not material
We noted that depreciation had not been applied to some infrastructure assets in both 2019/20 and 2020/21. Understated depreciation was £6.5m over the two years. This would have increased CIES expenditure and reduced PPE asset values.	6,000 increase expenditure	(6,000) reduce assets	6,000 increase deficit	Not material
Grants received in advance are all shown as non-current. Out of this, £8.4m relates to current liabilities which has not been adjusted for on account of materiality.	0	0	0	Not material
Our creditors sample testing identified receipts in advance where some of the items (including billed future year rental payments) had received no income in 2020/21 and therefore should not have been treated this way. The sample item was for £1.28m and for up to £0.640m of this, no income had been received. The extrapolated error was a £2.75m overstatement of creditors and also overstatement of debtors. As a result, there was no impact on the Comprehensive Income and Expenditure Account. Total receipts in advance as at 31 March 2021 were £3.4m.	0	0	0	Not material
Overall impact	£6,000	(£6,000)	£6,000	

C. Audit Adjustments

Impact of prior year unadjusted misstatements – Collection Fund

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

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

D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	163,109	£177,196*
Total audit fees (excluding VAT)	£163,109	£177,196*

* This is an estimate of the final fee. A breakdown is provided overleaf.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Housing Benefits Assurance	36,000	TBC
Audit Related Services – Teachers Pensions	7,500	TBC
Total non-audit fees (excluding VAT)	£43,500	£TBC

D. Fees

Fee analysis

Audit fees	Estimated fee
Scale fee	106,046
Reduced materiality	3,000
Enhanced PPE	4,350
Use of expert	5,000
Value for Money audit – new NAO requirements	20,000
Value for Money – significant risk re WECA and Children's	5,000
ISA 540	6,300
Additional journals testing	3,000
Infrastructure asset audit	5,000
NDR pool modelling and audit work	10,000
PPE – resolution of AUC and Non Valued assets	2,500
MRP – additional audit work	5,000
Internal recharges and additional testing re creditors, fees and charges	2,500
Estimated fee	177,696

E. Audit opinion

Our audit opinion is included below.

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

To Follow