The Audit Findings for South Gloucestershire Council Final

Year ended 31 March 2020

14 January 2021

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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. The Council has faced many front-line challenges such as administration of grants to businesses and closure of schools alongside the additional challenges of reopening services under new government guidelines. Finance staff have had to work at home.	We have considered emerging guidance issued by the Financial Reporting Council and actively contributed to audit firm and NAO technical meetings where the impact of the virus on the financial reporting disclosures and audit approach has been discussed. Restrictions resulted in both the Council and audit team introducing new remote access working arrangements including remote accessing financial systems, video calling as well as making greater use of ‘Inflo’, our document management sharing system. We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 11.
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.	We have substantially completed the audit of your accounts. There were significant delays in obtaining information which hampered the progress of the audit. This included delays in receiving adequate transaction listings to support key accounts balances and subsequently information of sufficient quality to support the samples selected from these listings. These are set out in more detail on page 13 (audit evidence). There are no matters of which we are aware of that would require modification of our audit opinion (included as Appendix D), subject to the outstanding matters detailed below. We propose that our audit report will include an Emphasis of Matter paragraph, highlighting the material uncertainties in property asset valuations stated in your accounts (including those held in the LGPS Pension Fund) due to the Covid-19 pandemic. This will draw attention to this issue and is not a qualification of our audit opinion. 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 findings are summarised on pages 4 to 12. The key findings from our audit are set out below. The Valuer’s formal report for 2019/20 was not received by Officers until 22 October 2020. Individual valuation sheets were initially provided for audit. When we tried to reconcile what the valuer had stated in their report to what was in the accounts, this identified unexplained differences and the Council subsequently identified an error (leading to a £3.4m net increase in the balance). This has been adjusted for in the financial statements. .

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 2020 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 audit identified an historic infrastructure asset balance of £12.6m relating to the Council's formation in 1996 for which the Council was unable to confirm what it related to. Therefore it was impossible to prove its continuing existence or ownership or whether the asset was correctly depreciated or needed to be impaired. This asset has been removed from the accounts and a prior period adjustment made. Both of the above are set out on page 7 and in Appendix B. Appendix B also contains an unadjusted misstatement. Our testing of a sample of accrued debtors at year end identified one item of £575,000 in relation to additional DSG grant that should not have been accrued for as the Council is no longer able to claim the grant. Our audit work is substantially complete and the most significant items outstanding are ; • Receiving and reviewing responses to our follow-up queries on school income, depreciation and provisions • Completion of remaining work on employee benefits (agency spend only) • A few remaining responses to our challenge of the revaluations performed on the Council's properties; and • Receiving and checking the revised statement of accounts
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 15 to 18.. The Council's medium term financial plan relies on the use of reserves to deliver a balanced position in 2020/21 and 2021/22 but this strategy is not sustainable in the medium to long term. The plan forecasts a significant deficit in 2022/23 and 2023/24. The Council needs to give urgent consideration as to what action it needs to take to reduce its reliance on reserves in 2021/22 and to ensure it is in sustainable financial position for 2022/23 and beyond. In particular it needs to develop a clear savings programme.

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 2020 for those charged with governance.

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.

Finally, we would like to thank officers for their continued support throughout the audit. The process has taken longer than both we and officers intended but this is not surprising given the pressures on the Council and the impact of remote working. Throughout the audit officers have behaved in an open and transparent manner.

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 plans, as communicated to you in July 2020

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 were increased from tat reported in our audit plan to reflect the increase in expenditure in 2019/20.

	Amount	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 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 1.5% was an appropriate rate to apply to the expenditure benchmark.
Trivial matters	£500,000	Approximately 5% of materiality was deemed an appropriate level for triviality.
Materiality for senior officer remuneration	£100,000	A lower level of materiality was determined for the Senior Officer Remuneration balance due to the sensitivity surrounding this disclosure.

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 • 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 the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register This work is not yet fully complete. We are currently awaiting a few remaining responses to our challenge of the revaluations performed on the Council's properties. Our audit report will include an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties in relation to the Covid-19 pandemic. The Council has stated in its accounts that its valuer considers there is a material uncertainty in relation to land and buildings and investment property valuations as at 31 March 2020. The Valuer's formal report for 2019/20 was not received by Officers until 22 October 2020 and subsequently sent to us. Instead individual valuation sheets were initially sent to the Finance team. When we tried to reconcile what the valuer had stated in their report to what was in the accounts, this identified unexplained differences and the Council subsequently identified an error (leading to £3.4m net increase in the balance). This has been adjusted for. Our audit identified an historic infrastructure asset balance (described as "various" and shown at initial cost less depreciation) included in Property Plant and Equipment of £12.6m for which the Council was unable to confirm what it related to other than it was a balance brought forward from a predecessor organisation during local government reorganisation in 1996. Therefore it was impossible to prove its continuing existence or ownership or whether the asset was correctly depreciated or needed to be impaired. This has been adjusted for and a prior period adjustment made. Both are set out in Appendix B.

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 • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions This work is not yet complete as we are still to receive all the audit support for the sample of journals we selected for testing. As reported at the previous Audit and Accounts Committee meeting, journals up to value of £5m do not require approval prior to being posted to the system and senior staff can post journals but this is rare. Budget holders do however provide some level of check as they should review all postings. 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.
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 Authority'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 Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any 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. There were no significant issues from this work. Our audit report will include an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties in relation to the Covid-19 pandemic. The Council has stated in its accounts that it considers there is a material uncertainty in relation to pension property valuations as at 31 March 2020.

Significant audit risks

	Risks identified in our Audit Plan	Auditor commentary
4	**Covid-19 pandemic** The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement	We carried out the following work • Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence **Conclusion** The audit has been more challenging for both us and the finance team due to this remote working. There are material uncertainties in the valuation of land and buildings as a result of the pandemic and an increased risk of material estimation uncertainty in the net pension liability. There is also a significant negative impact on the Council's financial sustainability which we refer to in more detail later in this report. .

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Building valuations - £511.4m and investment properties £ 68.2m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council now has significant investment properties (£ 68.2m) which are required to be valued annually. The Council engaged their internal valuation experts to complete the valuation of properties as part of their five yearly cyclical basis.. 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 2019, 31 January 2020 and 28 February 2020.	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. • 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. This work is not. yet fully complete. We are currently awaiting a few remaining responses to our challenge of the revaluations performed on the Council's properties. Our audit report will include an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties in relation to the Covid-19 pandemic. The Council has stated in its accounts that its valuer considers there is a material uncertainty in relation to land and buildings and investment property valuations as at 31 March 2020. We identified two potential adjustments to Property Plant and Equipment which are set out in more detail in Appendix B.	**TBC**

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £398m	The Council's net pension liability at 31 March 2020 per the draft financial statements is £398.9m (PY £388m) 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 2019. 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.	See below	Green

Audit Comments

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:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3% - 2.4%	Green
Pension increase rate	2.2%	2.1%	Green
Salary growth	3.6%	3.6%	Green
Life expectancy – Males currently aged 45 / 65	24 .7/ 23.2	22.5 - 24.7/ 22.2 – 23.7	Green
Life expectancy – Females currently aged 45 / 65	27.3/ 25.3	27.9 – 29 / 24.0 - 25.8	Green

- considered the completeness and accuracy of the underlying information used to determine the estimate; and
- considered the reasonableness of the Council's share of LGPS pension assets.

There were no significant issues from this work. Our audit report will include an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties in relation to the Covid-19 pandemic. The Council has stated in its accounts that it considers there is a material uncertainty in relation to pension property valuations as at 31 March 2020.

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
Dedicated Schools Grant earmarked reserve	South Gloucestershire Council recognise a deficit reserve of £16.3m 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 had to 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 confirmed that both parties are committed to working with other stakeholders to clarify the legal basis for, and accounting treatment of, DSG deficits. The Joint Statement also confirms that the CIPFA Local Authority Accounting Panel (LAAP) considered the issue 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. Since then DfE ran a consultation process and made changes to the terms and conditions of DSG grant for 2019/20 and 2020/21 and Regulations (SI 2020 83) were issued in February 2020, these are effective for the financial year beginning 1 April 2020. A LAAP bulletin(05) was also issued in April 2020 on the matter. We discussed the Council's current accounting treatment 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. The detailed break down of useable reserves in Note 10 includes the DSG reserve under an "earmarked" heading rather than the General Fund reserve but we consider that the reader of the accounts is still sufficiently informed of the position. 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.
Collection fund debtors	We were unable to sample test collection fund debtors held at 31 March 2020 as the detailed report showing individual balances needs to be run on 31 March and this had not been previously part of year end procedures. We were required to perform alternative procedures to gain sufficient assurance over this balance. We note that we had not previously tested the balance in this manner. However it is normal for auditors to change procedures and such requests are an evitable consequence of the more detailed testing being undertaken by auditors. We will work with the Council during 2021 to ensure that the necessary reports are available.
Debtors	Our testing of a sample of accrued debtors at year end identified one item of £575,000 in relation to additional DSG grant to cover an identified shortfall in 2018/19 and 2019/20 in funding from the Education and Skills Funding Agency (ESFA) following a review by the Council. We have seen correspondence at the end of May 2020 between the Council and EFSA which suggests that the shortfall was due to an incorrect interpretation of how to complete the census data in the Council's nursery settings and EFSA would therefore not adjust the funding calculation retrospectively. As there was not sufficient evidence to suggest this income was certain, this should not be accrued for. In addition EFSA also informed the Council that it was unable to alter the January 2020 census data return which would have an impact on future years funding as well but this loss was not quantified. When we highlighted this to central Finance staff, they promptly carried out an investigation including identifying lessons learnt to avoid such a loss in future. Steps have now been taken to help ensure it does not happen again. The Council is now pursuing restitution but acknowledges that the likelihood of success is now remote. We extrapolated the impact of this sample error on the total population and determined that this did not have a material impact.

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).

It has been a challenging year due to the Covid-19 pandemic which has seen the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing real challenges and it is dependent on the use of its reserves to set a balanced medium term plan. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

Going concern commentary	Auditor commentary
Management's assessment process The Council approved a budget for the financial year 2020/21, and updated the Medium Term Financial Strategy (MTFS), which sets out spending and resources for three years ahead. The s151 Officer has reported (under Section 25 of the Local Government Act 2003) that the budget proposals are based on robust estimates, and that the level of reserves is adequate for 2020/21. She has recently re-assessed the medium term financial position in light of the Pandemic and other factors which demonstrated additional pressures in 2021/22 and beyond. The revised Medium Term Financial Plan identifies balanced revenue budgets to the end of 2021/22, after delivery of savings targets and use of earmarked revenue reserves. The Council do not consider that there will be any liquidity issues in this assessment period. 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. 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 significant reserves balance. As such, the Council has a number of sources of finance available to it.	ISA (UK) 570 requires the auditor to evaluate management’s assessment of the entity’s ability to continue as a going concern for at least 12 months from the date of the accounts. The Council’s arrangements to set a budget, taking into account its key funding sources and expenditure requirements are appropriate. Management’s assessment is comprehensive. It takes into account the impact of Covid-19 which has significantly affected the financial outlook. The Council consider themselves a going concern as they will continue to provide services according to the public sector presumption and they do not consider there to be any material uncertainties.
Work performed We reviewed the 2020/21 budget and updated MTFS as part of our Value for Money Conclusion work. We considered the key variables in the MTFS and the financial risks the Council is managing and considered management’s recent updated view on the financial position due to the Covid-19 pandemic. We also considered the most recent management assessment and reviewed the underlying cash flow forecasts. We reviewed the Council's going concern disclosure in the accounts and have suggested changes.	We did not identify any material uncertainties relating to going concern. Our review of the assertions made did not identify any further risk issues. We are not aware of any events or conditions that cast significant doubt on the Council’s ability to continue as a going concern for 12 month from our proposed opinion date.
Concluding comments There is no impact on our audit opinion from our management’s going concern assessment. We are satisfied that there are no events or conditions identified in the course of the audit that cast significant doubt on the Council's ability to continue as a going concern.	We have noted as part of our review of the MTFS that the forecast position to the end of 2021/22 includes significant pressures and risks. The outlook is challenging and requires the Council to deliver further savings and increase its income. 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 at the January committee.
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 sent.
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. Note 4: Assumptions Made About the Future, and Other Major Sources of Estimation Uncertainty does not fully comply with the Code in reporting on uncertainty and in particular the requirement to include a sensitivity analysis.
Audit evidence and explanations/significant difficulties	We experienced significant delays in the receipt of supporting information that we requested as part of the audit process . This included delays in obtaining detailed transaction listings which reconcile back to balances in the accounts from which we initially select samples to test from. In addition when these were obtained, these listings sometimes contained a large number of unexplained contra entries (e.g. debit balances in a creditor balances listings). There were also several instances where information then provided was not of sufficient quality to provide assurance over the sampled transactions We recognise that, as elsewhere, your finance team has had to close down the accounts and respond to audit queries during the Coronavirus pandemic. Throughout the audit process, your officers have responded co-operatively whilst continuing to support the well-being of the finance team. As well as the impact of the pandemic, we recognise that staffing changes also contributed to this and there are issues with the functionality of the ledger system. 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 is still ongoing. Our Assurance Statement should be issued following the release of our audit report.
Certification of the closure of the audit	We plan to certify the closure of the 2019/20 audit of South Gloucestershire Council when we issue the audit opinion following the January 2021 Audit & Accounts Committee meeting.

Value for Money

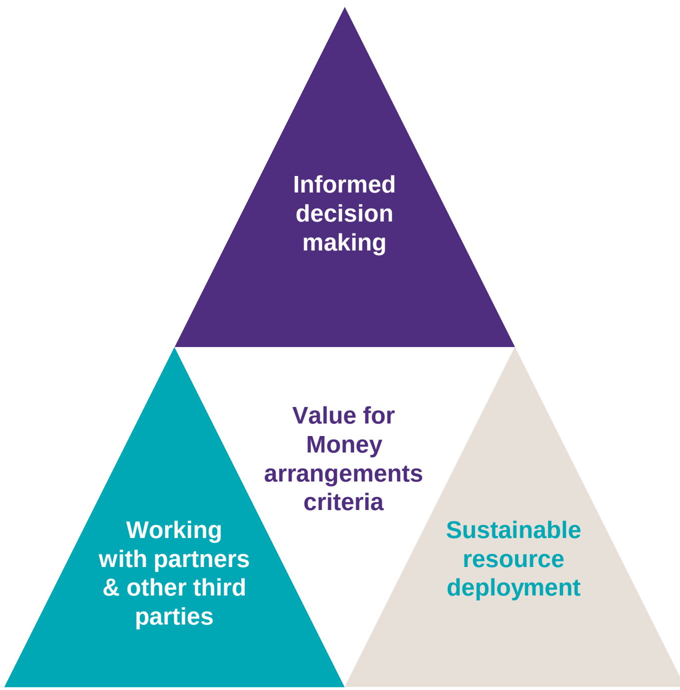
Background to our VFM approach

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 May 2020.

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.

The risk as identified in the audit plan was

Financial planning and future financial sustainability

The Authority continues to face increasing demand for certain services against a backdrop of reducing Government funding.

The Authority's current medium term financial plan shows a balanced position in financial years 2020/21 and 2021/22. This is made possible through the planned transfers of £7.2m and £9.6m in both these years from the financial risks reserve. This plan currently shows a deficit of £15.9m in 2022/23.

In response to this risk; we will:

- review the Council's outturn position and consider the impact on our responsibilities;
- consider the arrangements for monitoring and managing delivery of budget and savings plans for 2019/20; and
- review the Council's arrangements for developing and agreeing its 2020/21 budget and updated medium term financial plan, including the identification of savings plans, and consider the level of risk within these plans.

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 2019/20 and met its in year savings target and the underspend allowed a transfer to the Financial Risks Reserve which is designed to support the revenue budget;
- 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 2020/21 and 2021/22;
- the assumptions used in the production of the Medium Term Financial Plan appear to be appropriate;
- the Council has a balanced position in 2020/21 and 2021/22, through the use of the financial risk reserve. In 2022/23 and beyond there is insufficient balance in the financial risk reserve to prevent significant deficits. The Council is yet to determine its response including the quantum of savings which will be required
- the Council currently holds very healthy revenue reserves, although these are forecast to reduce over the period of the Medium Term Financial Plan and this has increased at the recent update; and
- the Council’s DSG reserve had a cumulative deficit of £16.3m as at 31 March 2020 and is forecast to rise still further in 2020/21. The Council has identified the need to revisit its recovery plan.

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 17 to 18.

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>2019/20 outturn</u> The draft 2019/20 financial statements show a net revenue spend of £218.056m against a revised budget of £220.992m, reflecting a £2.936m underspend. A large overspend in Children, Adults and Health (CAH) of £7.98m as forecast was offset by an underspend in other departments meaning that the Corporate Allowance contingency budget was not required to be fully utilised. The target savings for 2019/20 were £6.2m. At outturn, £3.639m of permanent savings had been achieved with £2.669m short term savings delivered whilst permanent solutions for these are developed. The overall outturn position was a significant improvement from forecasts earlier in the year. <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.
Financial planning and future financial sustainability	<u>Arrangements for developing the 2020/21 budget and the updated medium term financial plan</u> 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 2020/21 budget assumptions in the summer of 2019 and then considered the initial draft revenue and capital budgets and the Medium Term Financial Plan (MTFP) in the autumn 2019. The updated revenue and capital budgets and MTFP were reported in the February 2020 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 2020 budget appendices. Scrutiny of the budget is undertaken by Scrutiny Commission and a Budget Scrutiny Task Group with a lead representative from each party and co-chairs of scrutiny who sat on this. 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 meetings include briefings on the potential changes to the Local Government finance system and programme plans for the Council's Savings Programme. 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.

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	Following the approval of the medium term financial plan in February 2020, social distancing measures were introduced by government to combat the Covid-19 pandemic and this has resulted in additional cost pressures and reductions in income the Council collects such as council tax and business rates which will impact on future years. The October 2020 Cabinet reports included updated estimates of the impact of Covid-19 pressures, a review of earlier assumptions and new pressures such as in Childrens Adults and Health department alongside the government grants received in 2020/21 to date. The revised estimates show an improved outturn for 2020/21 from that shown in the MTFP but also highlighted the significant reductions in collection fund income during 2020/21 which in line with government guidelines need to be made good in the following three years. As well as projecting a balanced position in 2020/21, the revised MTFS is projecting a balanced position in 2021/22 with the use of the financial risk reserves but currently the plan is forecasting that the financial risk reserve will be insufficient to cover the increased deficits in 2022/23 and beyond. The forecast deficit in 2022/23 is currently £22.4m The continued use of balances to close the financial gap is not a realistic option. The level of savings planned at present will be insufficient to address planned deficits during and after 2022/23 and this will need to be addressed urgently to ensure it can continue to deliver its strategic priorities, its statutory functions and maintain its financial stability. In addition whilst the assumptions appear reasonable in the updated MTFS, the report highlights significant uncertainties in local government funding. There is continuing uncertainty about Local Government funding when the current multi-year settlement ends. Outcomes for Fair Funding, the possibility of a business rates ‘re-set’ and uncertainty about changes to Social Care funding all present risk to the Council’s financial position that needs to be effectively managed. The Fair Funding review implementation has been postponed to 1 April 2023. There is also uncertainty about additional funding specifically to assist councils in the pandemic as well as the future pathway of the pandemic itself.
Financial planning and future financial sustainability	DSG reserve The DSG balance deficit increased by a further £4.7m during 2019/20 to £16.3m as at 31 March 2020. Whilst the revised recovery plan agreed with DfE envisaged a reduction in the increase in deficit in 2020/21, an increased overspend of £8.2m is currently forecast in 2020/21. This has been brought about by pressures in the demand led elements of the High Needs Block. The 2020/21 forecast as at October 2020 is assuming that the savings target will not be met due to impact of Covid-19 and also slippage in implementing alternative methods of delivery for the high needs block services . The Council has reported that a longer term plan for recovery is anticipated to the Department for Education. Whilst the department is committed to reducing the deficit, it now considers this will take longer than originally envisaged. It has started to increase the capacity to support the necessary change with a staffing review and when the infrastructure arrangements being put in place now are consolidated, progress in this area should be accelerated. A revised recovery plan with new targets for the areas under pressure is being drawn up currently and will then be presented to the Schools Forum and Cabinet. Given the growing size of this deficit, it is very important that members ensure there is a revised and realistic recovery plan in place shortly and is then closely monitored to ensure delivery.
Conclusion	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	31,000	Self-Interest (because this is a recurring fee). self review and management.	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 of £28,500 in comparison to the total fee for the audit 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, self review and management threat to an acceptable level.
Certification of the Council's Teacher's Pension Return	4,200	Self-Interest (because this is a recurring fee) self-review and management.	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 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 self review and management 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.

Action plan

We have identified recommendations to date 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	IT General Controls Assessment: Control weaknesses were noted in South Gloucestershire Council's ITGC environment. These weaknesses include: ▪ Weaknesses in controls around accounts with elevated (super-user) permissions ▪ User profiles are replicated from other users, which may not be based upon specific user needs. ▪ Non-compliance with the Council's password policy & excessive time for auto-logout ▪ The Disaster Recovery plan requires review	Progress on implementing our recommendations for improvements is reported to the Audit and Accounts Committee.
Red	Dedicated Schools Grant The Dedicated Schools Grant is currently in deficit by £16.3m and this is forecast to increase in 2020/21. Officers have reported that a revised DSG recovery plan is to be produced.	Ensure that a revised DSG recovery plan which is realistic is agreed by Members and the Schools Forum and progress against this is closely monitored.
Red	Medium Term Financial Plan The Council has a balanced position in 2020/21 and 2021/22, through the use of the financial risk reserve. In 2022/23 and beyond there is insufficient balance in the financial risk reserve to prevent significant deficits.	The Council needs to give urgent consideration as to what action it needs to take to ensure it is in sustainable financial position for 2021/22 and beyond.including what savings programme is required.

Action plan (continued)

Assessment	Issue and risk	Recommendations
Red	There were some significant delays in obtaining transaction breakdowns and subsequently appropriate audit evidence for samples selected . Some of the delay related to the ability to use the financial ledger to easily produce good quality transactions listings to support the balances in the accounts.	Carry out a post project review of the final accounts and audit process to identify improvements for next year. This should include working with your ledger provider to automate this process to improve efficiency.
Amber	The valuers formal report for 2019/20 was not received by Officers until 22 October 2020 and subsequently sent to us. Instead individual valuations were sent. When we tried to reconcile what the valuer had said to what was in the accounts, this identified unexplained differences and the Council subsequently identified an error.	Ensure that officers are supplied with a formal valuation information from the Valuer when preparing the statement of accounts.
Amber	We were unable to sample test collection fund debtors held at 31 March 2020 as the detailed report showing individual balances needs to be run on 31 March and this had not been previously part of year-end procedures. We were required to perform alternative procedures to gain sufficient assurance over this balance.	Ensure that a report detailing all individual collection fund debtors is run each year as at 31 March

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.

Adjusted misstatements

Detail	Statement of Financial Position
1. Our audit identified an historic infrastructure asset balance (described as “various” and shown at initial cost less depreciation) included in Property Plant and Equipment of £12.6m for which the Council was unable to confirm what it related to other than it was a balance brought forward from a predecessor organisation during local government reorganisation in 1996. Therefore it was impossible to prove its continuing existence or ownership or whether the asset was correctly depreciated or needed to be impaired. A prior year adjustment is required.	Reduce (credit) Property Plant and Equipment £12.6m
2. In responding to an audit query to explain a difference from the total asset value in the Property Valuation Report (which was provided later in the audit) and that shown in the ledger and accounts, the Council identified an overstatement of land and buildings assets in the accounts.	Increase (debit) Property Plant and Equipment £3.4m

Audit Adjustments (continued)

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

Unadjusted misstatements

Detail	Impact on Statement of Financial Position and CIES
1. Our testing of a sample of accrued debtors at year end identified one item of £575,000 in relation to additional DSG grant to cover an identified shortfall in 2018/19 and 2019/20 in funding from the Education and Skills Funding Agency (ESFA) following a review by the Council. We have seen correspondence at the end of May 2020 between the Council and EFSA which suggests that the shortfall was due to an incorrect interpretation of how to complete the census data in the Council's nursery settings and EFSA would therefore not adjust the funding calculation retrospectively. As there was not sufficient evidence to suggest this income was certain, this should not be accrued for. In addition EFSA also informed the Council that it was unable to alter the January 2020 census data return which would have an impact on future years funding as well but this loss was not quantified. When we highlighted this to central Finance staff, they promptly carried out an investigation including identifying lessons learnt to avoid such a loss in future. Steps have now been taken to help ensure it does not happen again. The Council is now pursuing restitution but acknowledges that the likelihood of success is now remote. We extrapolated the impact of this sample error on the total population and determined that this did not have a material impact.	Reduce debtors by £575,000 which reduces 2019/20 income in CIES by same amount.

Audit Adjustments (continued)

Misclassification and disclosure changes to date

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
1. 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.
2. The Council reclassified creditors within Note 18 – creditors during the audit although the total figure remains the same.
3 The Council identified an error in Note 8-expenditure and income analysed by nature. Fees and charges and other services expenditure had both been understated by £54.2m
4.The accounting policy on page 24 describing how schools are accounted for was enhanced to include an explanation of why group accounts are not necessary.
5. We requested a revised format of the Movement in Reserves Statement which ensured this prime statement reflected the appropriate accounting treatment of DSG.
6. The Council revised note 4 to draw attention to material uncertainties in the valuation of property investments as at 31/3/20 due to the coronavirus pandemic. The Council also enhanced its pension disclosures (notes 37 onwards) to describe the impact on the pension liability of the Government's proposed remedy to the McCloud case.
7. Note 8- Income and Expenditure analysed by nature. "Fees charges and other service income" was overstated by £108.7 million grant income which was already included in "government grants and contributions". This arose from the consolidation of income into the schools ledger. There is an equal overstatement of other services expenditure in the same note. As the changes affected the same lines as item number 3 above, the net change was to decrease fees and charges income and other services expenditure by £54.5m.

Fees

We set out below our fees for the audit and provision of non-audit services.

Audit Fees

	Proposed fee £	Final fee £
Council Audit	120,396	150,000

Over the past **ten** months the pandemic has had a significant impact on all of our lives, both at work and at home and the recent announcements show that this is now likely to continue for some time to come. Our focus as a firm has been to protect our people while continuing to progress our audits so that we are able to deliver as many as possible to the 30 November timetable.

The impact of COVID 19 on the audit of your financial statements includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work (see below).
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Financial resilience assessment – we are required to consider the financial resilience of audited bodies. COVID 19 has impacted on the financial resilience of all local government bodies, including South Gloucestershire Council. This has increased the amount of work that we have undertake on going concern and value for money (financial sustainability). In your report we make reference to the long term financial resilience of the Council. We have not had to include an emphasis of matter or use our statutory powers
- Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). The Council has worked effectively with us. Despite our efforts and the Council's we have needed to put additional resources into the audit. Where possible we have mitigated this with reduced travel and expense costs

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

The impact of the matters outlined above have increased the cost of the audit by around 15 per cent across councils this year. In addition the delays referred to on pages 3 and 13 have further increased costs. Currently the total number of audits days is 85% higher than for 2018/19 audit.

Estimated fees for other services	Fees £
Certification of Housing Benefits claim	31,000
Teachers Pensions Return audit	4,200

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Gloucestershire Council (the 'Authority') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and Legal and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Audit 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.

In our evaluation of the Head of Financial Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and investment properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Head of Financial Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement 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.

Audit opinion

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 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other 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 financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the **Head of Financial Services** and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on **page 9**, 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 2019/20, 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 Accounts and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Audit opinion

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 April 2020, 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 2020.

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 April 2020, 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 2020.

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.

Audit opinion

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

Use of our report

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

Mark Stocks, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

January 2021

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