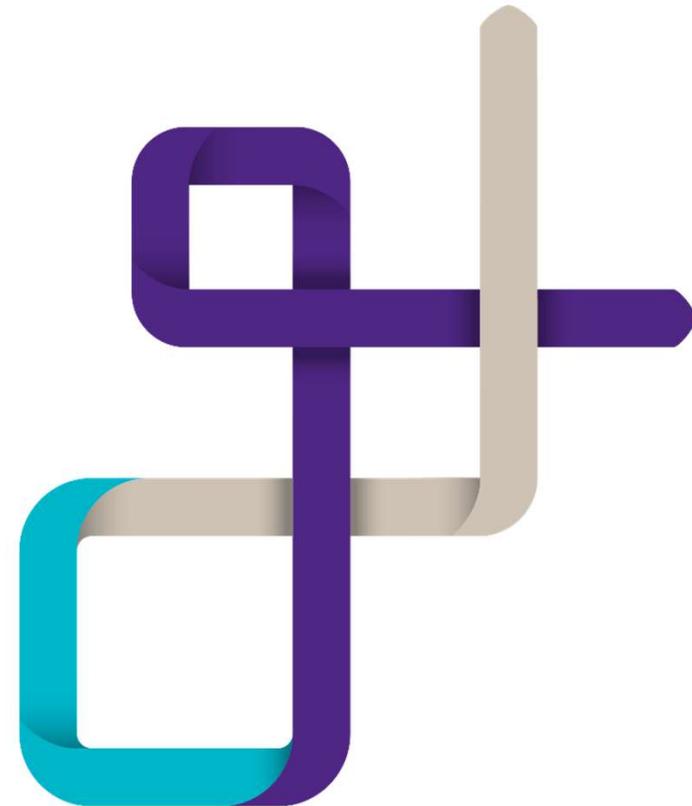


Audit Findings

Year ending 31 March 2018

South Gloucestershire Council
18 July 2018



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.

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Headlines

This table summarises the key issues 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 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year; andhave 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, 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.</p>	<p>We have not identified any adjustments to the financial statements that have resulted in adjustments to the Statement of Comprehensive Income and Expenditure. Other audit adjustments are detailed in Appendix A. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Accounts Committee meeting on 24 July 2018, as detailed in Appendix E.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>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, except for in relation to the Council's Ofsted rating of inadequate, which is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and for planning, organising and developing the workforce effectively to deliver strategic priorities.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 11 to 16.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We do not expect to be able to certify the conclusion of the audit yet as we are still completing our work on the Council's Whole of Government Accounts return. Further details are noted on page 10.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

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 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), 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 we undertake a full scope audit of the Council's financial statements. This includes an evaluation of the Council's internal control environment, including IT systems and controls, and substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan, with the materiality level applied to the Council's financial statements set at £10.547m. The clearly trivial level, below which misstatements are not reported to those charged with governance, remains at £0.527m as per our audit plan.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries below being resolved, we anticipate issuing an unqualified audit opinion in respect of the Council's financial statements (Appendix E).

Items outstanding at the date of our report include:

- completion of our grant income testing;
- sample testing of fees, charges and other service income;
- sample testing of year end income to ensure it is accounted for in the correct period;
- receipt and review of short term investment confirmations with the deposit institutions;
- completion of our sample testing of debtors;
- completion of sample testing of agency staff expenditure;
- receipt and review of debt confirmations;
- sample testing of other service expenditure;
- completion of our concluding procedures prior to issuing audit opinion;
- receipt and review of the final version of the financial statements; and
- receipt of management representation letters.

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

The Council has a developed detailed revenue budgets that run to 2021/22 and a longer Medium Term Financial Plan (MTFP) that runs to 2028/29. These identify balanced revenue budgets to the end of 2020/21, after delivery of savings targets and some use of reserves. The Council's Plan runs to 2020 which sets out the priorities of the Council, including its delivery of services, with the aim of achieving the best for your residents and their communities.

As a Local Government organisation, the Council has a number of options available to it to raise finance should it require, including the decision on the level of precept and loan financing. Should it be required, the Council could also raise fees or cease discretionary services and it currently holds a healthy reserves balance. As such, the Council has a number of sources of finance available to it.

The Council is developing the next iteration of the Council Savings and Transformation Programme which will deliver the next round of savings. The plan is being developed using external consultancy as appropriate and is subject to regular scrutiny through Cabinet.

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 South Gloucestershire Council will cease, and hence the financial statements have been prepared on a going concern basis.

Auditor commentary

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.

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a 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.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including South Gloucestershire Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for South Gloucestershire Council.</p>
<p>Management override of controls</p> <p>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 identified management override of controls as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions or estimates. <p>Our audit work has not identified any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We considered that the methodology and assumptions used were appropriate for accounting purposes; • considered the competence, expertise and objectivity of any management experts used, including a review of recent training. Whilst an internal valuer was used, we were satisfied that the valuations were completed objectively; • discussed the basis on which the valuation is carried out and challenged the key assumptions where appropriate. The valuation methodology is in line with RICS standards and the CIPFA Code of Practice on Local Authority Accounting. Major assumptions appear appropriate and are assessed by the Council's qualified valuation experts; • considered the information used by the valuer to ensure it was robust and consistent with our understanding. As an internal valuation function, the valuers have access to all drawings and floor plan information, and also conduct physical inspections on assets; • tested revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. In particular, we applied our own indices to these assets to provide challenge that management's assertion that there was no material difference was justified. <p>Our audit work has not identified any issues in respect of property, plant and equipment valuations.</p>

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out;• undertook procedures to confirm the reasonableness of the actuarial assumptions made;• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports; and• gained assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>Employee remuneration Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>We:</p> <ul style="list-style-type: none"> • gained an understanding of the system for accounting for payroll expenditure and evaluated the design of the associated controls; • reconciled the payroll system outputs to the financial ledger and statements of accounts; and • performed substantive analytical procedures on payroll costs to identify anomalies or areas for further audit focus. <p>Our audit work completed to date has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention.</p>	<p>We:</p> <ul style="list-style-type: none"> • gained an understanding of the system for accounting for non-pay expenditure and evaluated the design of the associated controls; and • reviewed a sample of non-payroll payments made post year end to ensure that they have been recorded in the appropriate year. <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Activity is accounted for in the year that it takes place, not when cash payments are made or received.</p> <p>Revenue from the sale of goods and disposal of assets is recognised when the Council transfers the risks and rewards of ownership to the purchaser. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</p> <p>Government grants and third party contributions are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and that the grants or contributions will be received.</p>	<p>The accounting policy is appropriate and complies with the CIPFA Code of Practice on Local Authority Accounting.</p> <p>The disclosure of the accounting policy is adequate.</p>	 Green
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Useful life of PPE • Revaluations • Impairments • Accruals • Valuation of pension fund net liability • Provision for NNDR appeals 	<p>Property, plant and equipment valuations and the valuation of the pension fund net liability were considered under the related significant risk as reported on pages 6 and 7.</p> <p>Our work on other judgements and estimates did not identify any significant issues.</p>	 Green
Other critical policies		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	 Green

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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 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 standard 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 investment organisations. This permission was granted and the requests were sent. These requests were returned with positive confirmation. We also received the required assurances from the Avon Pension Fund auditor.
Disclosures	Our review identified disclosure errors which are detailed on page 18.
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, 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.</p> <p>No inconsistencies have been identified.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • 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; and • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>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. Our work is still underway in respect of the WGA consolidation.</p>
Certification of the closure of the audit	We do not expect to be able to certify the completion of the 2017/18 audit of South Gloucestershire Council in our auditor's report, as detailed in Appendix E, as our work on the WGA consolidation remains underway.

Value for Money

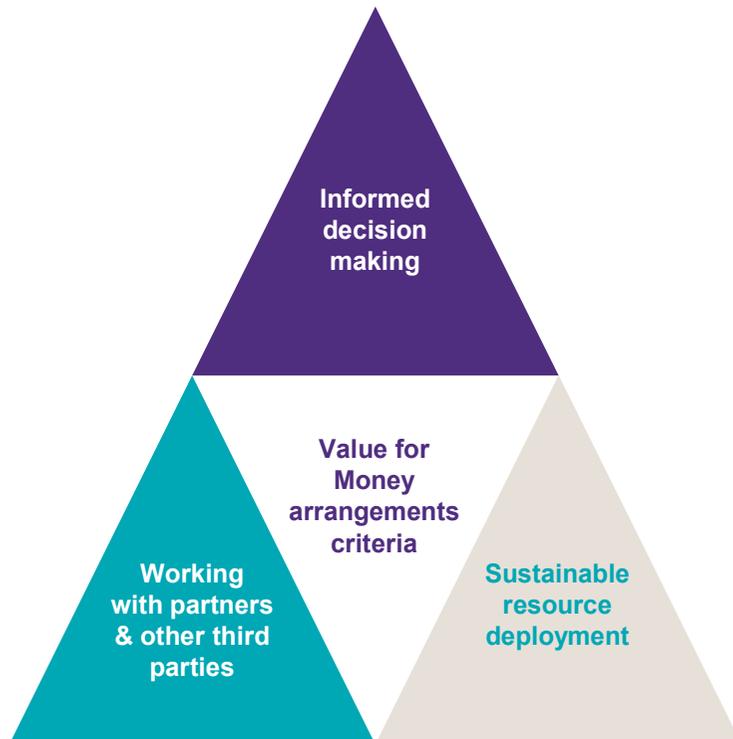
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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 11 January 2018 as follows:

- Medium-term financial strategy and position
- Progress against Ofsted inspection findings

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

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

Value for Money

Our work

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

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

- The Council has balanced budgets to 2020/21, albeit with some use of reserves and savings targets. The budgets and the MTFP have been developed using a robust process and reasonable assumptions.
- The Council continue to work on the Council Transformation and Savings Programme and have sufficient time and resource to ensure that the required savings are fully delivered.
- The Council's Ofsted rating still remains as 'Inadequate', and although there have been areas of improvement in year there still remains more to do.

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 13 to 16.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matter we identified in respect of the Council's Ofsted rating, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The text of our proposed report can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

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
<p>Medium-term financial strategy and position</p> <p>With continuing austerity and rising cost pressures, in particular in children's and adult social care, the Council is facing financial challenges like many other local authorities.</p>	<p>The 2017/18 revenue outturn was an underspend of £2.278 million after carry forwards of £0.824 million. The forecast position at Quarter 3 was an overspend of £20k meaning that the final position improved by £2.298m. This was due to an improved position arising within CECR; the Council receiving additional unbudgeted s31 grants and the benefit arising from one-off historic collection fund balance adjustments. The net underspend was transferred to the Financial Risks Reserve to support future budgets. In delivering this outturn, the Council achieved all of the 2017/18 savings requirement of £6.562 million; delivering this through £1.085 million of non-recurrent schemes in year. Non-recurrent measures are used where expected savings are not fully delivered to original timescales but will be delivered in the future, rather than original savings plans having been found to not be feasible.</p> <p>In February 2018, the Council agreed its updated Medium Term Financial Plan (MTFP) as part of the 2018/19 budget setting process. The revised high level MTFP shows a balanced revenue budget for 2018/19, albeit following assumed delivery of £6.2 million of savings from the Council's Savings Programme and a net use of the financial risks reserve of £7.2 million. Revenue budgets are also balanced in 2019/20 and 2020/21, though this is dependent upon savings and change programme benefits of £16.4 million for the two years, and an additional net use of £4.2 million of the financial risks reserve by the end of 2020/21. A revenue deficit of £3.3 million is recorded in 2021/22 after savings of £5.3 million of savings and a £1.7 million use of the financial risks reserve. At the end of 2027/28 the Council forecasts a £30.5m in-year deficit. The Council therefore continues to face significant challenges in securing funding, achieving savings and delivering a balanced budget over the full term of the MTFP.</p> <p>As in previous years, the budget setting process was scrutinised at a number of stages through its production. Cabinet discussed and agreed the overall budget assumptions in July 2017 and considered the revenue budget in November 2017. This initial draft of the revenue budget and MTFP was subsequently updated in the February 2018 Cabinet budget report. The Council also undertakes public consultation on its budget, and the results were included within the February 2018 budget report.</p> <p>A review of the key assumptions used in the production of the 2018/19 budget and MTFP confirm that they appear reasonable, based upon current information and policy decisions. Funding is included in line with known allocations and is based upon current Government funding policies and limits. One area of potential risk relates to the 100% Business Rates pilot. The Council has assumed that the pilot will continue until the end of 2019/20, rather than 2018/19 as is currently confirmed, on the assumption that it will remain until the proposed Local Government finance system changes from 2020/21. There is an assumed £5 million annual benefit to the Council from the pilot, which is transferred to the financial risk reserve to partly offset the transfers out of this reserve to support the revenue budget as outlined above. Without this benefit transferring into the reserve, the use of balances would be even more significant.</p> <p>As noted in the review of the 2017/18 revenue budget outturn, like many other councils, South Gloucestershire reported a significant overspend against their Children and Adults budget in 2017/18. In response to this, the Council commissioned CIPFA to assist with a review of its forecasting and modelling of demand and costs to support future financial planning. This has resulted in more accurate forecasts for increases in demand being built into medium term finances. This is the most significant cost pressure that the Council faces in the near future, with an additional £8.291m of budget support required for 2018/19 alone. The Council will need to ensure that it continues to monitor actual costs against forecasts to ensure that the costs are accurately reflected in future budgets.</p>

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

Medium-term financial strategy and position

Continued

Delivery of balanced revenue budgets over the short and medium term are predicated on delivery of a number of savings. The Council has a strong track record of delivering its savings programme. The Council also recognises the need to develop the next tranche of savings options, and is developing transformation and other programmes designed to deliver these benefits, referred to as the 'Council Transformation and Savings Programme', with an update taken to the July 2018 Cabinet. The Council is using external support and consultants where appropriate to test and develop these plans. Service areas are developing options for further consideration and decision. For example, CAH have identified circa £10 million of savings options to cover the total £8 million that are required for their service area. This will allow officers and Members to consider the implications of the programmes and chose those that they wish to progress. There is a focus in these programmes on policy changes that are designed to mitigate demand rather than cuts to services. Other areas being considered are increased income opportunities, potentially through commercial land and property investments and treasury management options. Longer term options are also being considered, and the Council has sufficient time available to consider and plan these properly to ensure that they deliver the intended benefits.

As noted above, the MTFP makes use of the financial risks reserve to help fund revenue budgets in the short to medium term. Per the reserves projection included within the revenue budget and MTFP, the reserve is forecast to fall from £18.450 million at the beginning of the 2017/18 financial year to £5.55 million by 31 March 2021. The 2017/18 revenue outturn allowed the Council to increase the Financial Risks Reserve to £20.46m at the beginning of 2018/19, providing additional support to the Council's budget and savings programme. The forecast in the reserves paper is predicated on the gains from the Business Rates Pilot as noted previously, as these are used to replenish the Financial Risks Reserve. The forecast fall in revenue and capital reserves from 31 March 2017 to 31 March 2021 is approximately 35%. The fall in CAH revenue reserves (excluding the DSG reserve which actually puts total CAH reserves in deficit over the period) highlights a particular concern based on the overspends and continued demand and price increases for the service, though with the additional cost modelling undertaken with the support of CIPFA the Council should now have more accurate forecast costings included within its financial plans. Total reserves are forecast to fall 35% from the outturn at 31 March 2017 to 31 March 2021, though this will be updated following the 2017/18 outturn.

The Draft Capital Budget to 2021/22 shows a balanced capital programme. This is based upon forecast revenue due to some Government departments not yet releasing the relevant funding allocations and expenditure plans are risk rated dependent upon the progress or certainty of the programme. The capital budget is financed through a mixture of Government grants (26%), prudential borrowing (26%), capital receipts (11%), reserves (7%), Section 106 and Community Infrastructure Levy (10%) and European Development Funds (20%).

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

Key findings

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

Significant risk	Findings
<p>Progress against Ofsted inspection findings</p> <p>In February 2017, Ofsted published an inspection report which concluded that overall children's services were inadequate in South Gloucestershire. The Council has undertaken a number of improvement actions following this report. In December 2017 Ofsted and the Care Quality Commission issued a Written Statement of Action because of significant areas of weakness in the local area's practice following a joint local area SEN and disabilities inspection. Children's services represent a significant area of responsibility and expenditure for the Council.</p>	<p>Following the publication of Ofsted's inspection report in February 2017, a Children's Service Improvement Board was set up with an independent chair, in accordance with the Improvement Notice. The Improvement Board comprises South Gloucestershire Council lead members and senior officers, representatives from partner agencies (police, schools and health) as well as the chair of the Local Safeguarding Children Board.</p> <p>The Council submitted its Improvement Plan to Ofsted in May 2017, following wide consultation and scrutiny by a number of internal and external sources. The Plan includes a number of measurable actions and outputs designed to move the Council away from the inadequate rating, and is monitored through the Improvement Board. Updated versions of this report identify a number of the improvement actions have been completed in year, though some of the actions are rated as red meaning that they are not on track to be delivered by the originally stated timescale.</p> <p>A progress report written by the Chair of the Improvement Board was taken to the November 2017 Cabinet meeting. This sets out a number of the actions taken since the publication of the inspection report, including progress in the key areas highlighted as needing improvement by Ofsted. The update also identifies areas where continued focus and work is required, including a number of key performance indicators which need to show some sustained improvements. The Department for Education conducted a progress review in October 2018 and noted that there had been significant improvement in some of the areas of weakness identified in Ofsted's inspection report (in particular the 0-25 disability service), but that continued focus is needed to ensure progress more widely and to avoid a decline in other areas of the service. The Council has recognised the need for a more consistent and insistent drive on improving practice, and reshaped its governance arrangements to seek to promote this.</p> <p>A joint CQC and Ofsted inspection of the effectiveness of the South Gloucestershire area in implementing the disability and special educational needs (SEN) reforms as set out in the Children and Families Act 2014 was also undertaken in November 2017 which resulted in Her Majesty's Chief Inspector determining that a Written Statement of Action was required because of significant areas of weakness in the local area's practice. The CCG and Council issued their Joint Written Statement of Action in response to the eight areas of significant weakness identified in February 2018.</p> <p>The statement of action sets out the vision and principles, the arrangements for working together to oversee this work, key themes from the inspection, a summary of the outcomes sought to address the weaknesses identified and the improvements that will be made, the high priority actions and the framework to be used to measure performance. It also includes a list of key stakeholders and action timelines. Whilst there are some immediate actions due for completion between January and March 2018, the timeline of actions runs to April – June 2019 which suggests that there are some fundamental changes required that will take time to implement and embed.</p> <p>The Council commissioned a review of children's services early help, which was conducted between July and November 2017 and reported in December 2017. This found areas of good practice but noted a number of actions designed to create a truly effective service offering which the Council accepts and is working toward.</p>

Key findings

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

Significant risk

Findings

Progress against Ofsted inspection findings

Continued

The results of the first public Ofsted monitoring visit were reported in February 2018. The report concludes that “the pace of improvement in South Gloucestershire children’s services is too slow. Children in South Gloucestershire continue to experience systemic delays in receiving the help that they need. Risk to children continues not to be consistently identified or addressed by social workers and their managers. Quality assurance of casework through auditing activity is too variable and does not always identify or address poor practice. Senior managers were aware of some, but not all, of the deficits seen by inspectors on this visit.”

The third monitoring visit by Ofsted was completed during May 2018 and was reported in June 2018. The summary notes that “since the last monitoring visit, the local authority has continued to implement its improvement plan. Recent progress has been made in some areas to improve services for children and young people in care in South Gloucestershire. The pace of improvement has started to increase and now needs to be accelerated. Significant recent investment by the council has supported the improvements seen by inspectors during this visit. The senior management team recognises that a number of areas continue to require improvement and there is still much to do.”

Whilst the Council has taken a number of immediate and subsequent actions to ensure that the adverse findings from the Ofsted report are fully addressed, Ofsted’s follow up meetings still conclude that progress is too slow and changes are not yet sufficiently embedded. A full re-inspection has yet to occur which means that the Improvements Notice still stands, and internally the Council recognise that some areas of the service still require some improvement. **As a result, we concluded that there were weaknesses in the Council’s arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, and planning, organising and developing the workforce effectively to deliver strategic priorities.**

Independence and ethics

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.

Service	£	Threats	Safeguards
Audit related			
Certification of Teacher's Pension return	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit of £129,930 and in particular relative to Grant Thornton UK LLP's turnover overall is not significant. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your. None of the services provided are subject to contingent fees.

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.

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.

Issue	Detail	Auditor recommendations	Adjusted?
Disclosure	Our testing of the Property, Plant and Equipment disclosures in Note 14 identified a £2,149k difference between the disclosure note and the Council's Fixed Asset Register. The difference relates to a historical adjustment made in respect of the Council's PFI scheme in 2016/17. Whilst the net book value agreed between the disclosure note and the Fixed Asset Register, the 'Cost or Valuation – At 1 April 2017' and the 'Accumulated Depreciation and Impairment – At 1 April 2017' lines of the 'Other Land and Buildings' column in Note 14 were both £2,149k higher than the respective values in the Fixed Asset Register.	The historic mismatch should be written out of the Property, Plant and Equipment note to ensure that the Fixed Asset Register and the financial statements can be reconciled.	✓
Misclassification	The short term element of the PFI liability was double counted in the financial instruments disclosures in Note 15. The liability of £1,013k was included in a separate disclosure line entitled 'PFI and Finance Lease Liabilities' and also included in the 'Creditors – financial liabilities at contract cost'	The 'Creditors – financial liabilities at contract cost' should be reduced by £1,013k to ensure that the short term PFI liability is not doubled counted in the disclosure note.	✓
Misclassification	In Note 15, the bank overdraft balance of £6,373k was included in the 'External Borrowing' line. As the overdraft is recorded net within the 'Cash and cash equivalents' line of the Balance Sheet, we would expect this treatment to be replicated in the classification in Note 15.	The bank overdraft should be included in the net balance of 'Cash and cash equivalents' rather than the 'External borrowing' line in the disclosure in Note 15.	✓
Disclosure	The savings requirement disclosures in the Narrative Report were updated from £27m in the draft financial report to £29.9m to correspond to the latest savings reports taken to Cabinet in July 2018.	The disclosures should be updated to reflect the latest savings target.	✓
Disclosure	Our audit identified a number of minor adjustments to the presentation of the financial statements, including an adjustment to improve the clarity of Note 31 – Dedicated Schools Grant. A number of other grammatical, typographical and arithmetic changes were also made to improve the readability, internal consistency and presentation of the draft financial statements presented to audit.	The financial statements should be adjusted for the proposed amendments to improve the layout and readability of the financial statements.	✓

Audit Adjustments

Impact of other findings

The table below provides details of other findings arising during the 2017/18 audit.

Detail

- | | |
|---|---|
| 1 | Our substantive sample testing of the Council's creditor balances identified four instances of year end creditor accruals that were overstated when compared to the value subsequently invoiced. The overstatements identified totalled £42k. Due to faster close deadlines in 2017/18, the Council were required to close the financial statements on more estimates than in previous years, and therefore more variances are to be expected. Our testing provides assurance that the Council's estimates were prudent given that in all cases the Council over-accrued for expenditure. When extrapolated across the tested creditors population, the error is projected to be a £829k overstatement of the creditors balance in the Balance Sheet. As an extrapolated balance, we would not expect the Council to adjust the financial statements. |
|---|---|

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 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Current year impact
1 Our sample testing of revaluations of property, plant and equipment identified that due to the way that a revaluation was processed for a specific asset, the accounting entries posted were incorrect. Whilst the net position was correct, the charge to the Cost of Services and the gain taken to the Revaluation Reserve were each overstated by £1,614k.	Cr Cost of Services (Children, Adults and Health) £1,614k Dr Surplus on revaluation of property, plant and equipment £1,614k	Cr Capital Adjustment Account £1,614k Dr Revaluation Reserve £1,614k	The asset was revalued again in 2017/18 and no issues were noted with the accounting treatment of 2017/18 revaluations.
2 The deferred liability relating to ex-Avon loan debt was not split between its short term (£677k) and long term (£16,243k) element in the Balance Sheet in 2016/17. Instead, the total liability was shown as a long term liability.	None	Cr Short Term Liabilities £677k Dr Long Term Liabilities £677k	The liability has been correctly split between current and non-current in the 2017/18 Balance Sheet.

Action plan

We have identified the following recommendation 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 2018/19 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	<p>During our audit we requested transaction-level reports to support the 'Other services expenses' and 'Fees, charges and other service income' lines in Note 8. The Council does not currently have automated reports created within the Civica ledger to detail these transactions, and therefore had to manually run transaction reports and reconcile these back to the disclosures which was labour intensive and inefficient. The Council should work with Civica to automate this process to improve efficiency.</p>	<p>The Council should ensure that the financial ledger is capable of producing detailed transaction reports that support the entries in the financial statements, namely Note 8 – Expenditure and income analysed by nature.</p> <p>Management response</p> <p>Management is in agreement with this recommendation and has started work with Civica to resolve.</p>

Controls

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

Follow up of prior year recommendations

We raised the following recommendations in the audit of South Gloucestershire Council's 2016/17 financial statements.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Council should ensure that land and building assets are valued at a minimum of every five years.	Our testing of property, plant and equipment valuations has not identified any issues in relation to the regularity of revaluations.
✓	Annually, the Council should also undertake an exercise involving finance and property services to consider any land and buildings not revalued in year. Using appropriate market data and local trends, these assets should be reviewed to consider whether their carrying value in the balance sheet is in totality materially different to their current value. If evidence suggests this may be the case, assets should be formally revalued by the Council's valuer until there is no material difference.	The Council engaged early with us in respect of this issue in the 2017/18 financial year and undertook significant numbers of revaluations in order to ensure that the carrying value of land and building assets in the balance sheet was not materially different to their current value. We reviewed this work and did not identify any issues.
✓	Those charged with governance and officers should confirmed that they remain satisfied with the Council's journal entry policy.	See page 6 for the results of our work in relation to the testing of journal entries. The Council and Those Charged With Governance confirmed that they were satisfied with the journals policy following the 2016/17 audit. No issues were noted from our sample testing of specific journal entries in 2017/18. The Council proposed to undertake sample reviews of journals over £500k. This review was last completed in September 2017. The review should be completed routinely.
✓	Our testing noted non-trivial historic balances in the accruals for Council Tax and Business Rates debtors and creditors. Where historic balances have been rolled forward for a number of years we recommend that the Council reviews whether these balances are still payable / receivable and writes off balances which are no longer appropriate.	Historic balances have been cleared in year.

Assessment

- ✓ Action completed
- X Not yet addressed

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	£129,930	£129,930
Grant Certification	£9,449	TBC
Total audit fees (excluding VAT)	£139,379	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown below.

Non Audit Fees

Fees for other services	Proposed fee
Audit related services:	
Certification of Teacher's Pension return	£4,200

Audit opinion

We anticipate we will provide the Council with a 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 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account and all notes to the financial statements, including the 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; 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.

Who we are reporting to

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.

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

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Financial Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls. We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Financial Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Annual Financial Report, 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer 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 Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Accounts Committee is Those Charged with Governance.

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

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matter:

In February 2017, Ofsted issued its report on the inspection of the Authority's services for children in need of help and protection, children looked after and care leavers and the review of the effectiveness of the Local Safeguarding Children's Board. The overall judgement was that children's services were rated as inadequate.

The report concluded that performance management and quality assurance systems have not been robust enough to alert political and senior leaders to critical weaknesses. In particular, leaders have not ensured that children with disabilities receive a safe service that meets their needs and protects them from harm. The report also noted that too many vulnerable children with disabilities have been left without adequate help or protection and that as a result, children have been left in situations of unmet need and unassessed risk.

Since issuing its report Ofsted has published the outcome of a monitoring inspection carried out in February 2018. This notes the improvements made in response to the inspection report and the work still required. As at 31 March 2018, the overall inadequate rating remained in place.

This matter is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management and for planning, organising and developing the workforce effectively to deliver strategic priorities.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature to be added

Alex Walling
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf
Bristol
BS2 0EL

Date to be added



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