

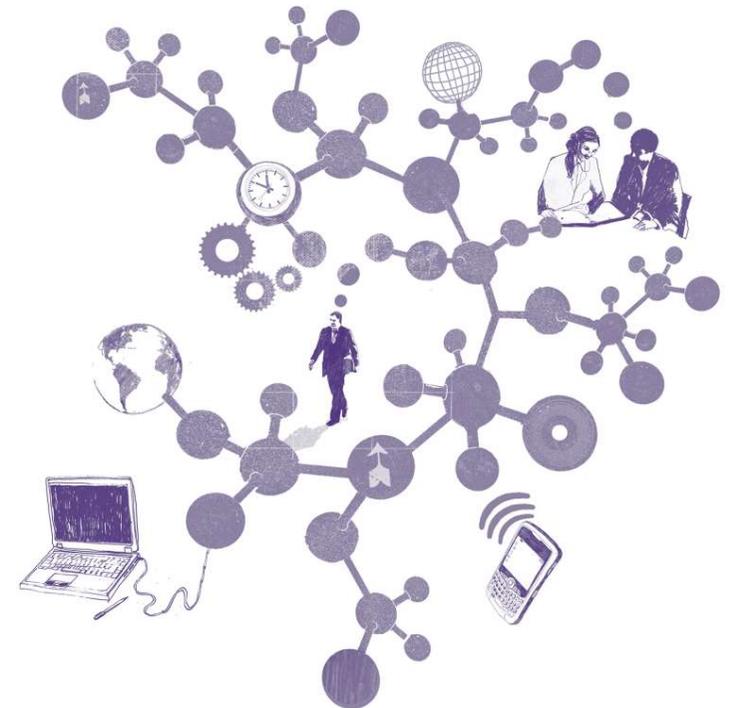
The Audit Findings for South Gloucestershire Council

Year ended 31 March 2017

15 September 2017

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September 2017

Dear Members of the Audit and Accounts Committee

Audit Findings for South Gloucestershire Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of South Gloucestershire Council, the Audit and Accounts Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Alex Walling

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of South Gloucestershire Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 31 May 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion; and
- completion of the Whole of Government Accounts audit procedures in line with the National Audit Office timetable

We received draft financial statements at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £56,171k; the audited financial statements show net expenditure of £39,912k.

This change is primarily driven by changes made to the valuation of the Council's land and buildings. We have also recommended a number of adjustments to improve the presentation of the financial statements. Further details on these are set out in section two of this report.

The key messages arising from our audit of the Council's financial statements are:

- the Council has worked to accelerate the accounts closedown process, with the draft accounts provided for audit on 27 June 2017.
- the standard of the working papers showed marked improvement from previous years, demonstrating the work invested by management in the preparation and review of working papers provided for audit. However, not all working papers were immediately available upon commencement of the financial statements audit.
- there were fewer amendments, misclassification and disclosure changes required than in previous years, again demonstrating the improvement in the closedown process. See page 15 for assurance gained over the risk in relation to the quality of the Council's draft accounts, and effectiveness of quality control arrangements.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement (AGS) and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's AGS and Narrative Report, we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to the Council's journal entry policy.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issue which will give rise to a qualified 'except for' VFM conclusion:

The Council was subject to an Ofsted inspection between November and December 2016. Ofsted published their findings in February 2017, with the report concluding that children's services in South Gloucestershire are inadequate. Children's services are a key function of the Council, with the cost of integrated children's services representing 22% of the Council's 2016/17 budget. Whilst we have seen evidence of a number of positive actions being implemented by the Council following the publication of the report, Ofsted has yet to undertake a re-inspection to consider whether adequate arrangements have been developed.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Accounts Committee.

We also undertake non-Code based grant certification work on the Council's Teacher's Pensions return and the Local Transport Grant. We will complete this work in accordance with the relevant timescales and report our findings accordingly.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Corporate Resources.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Corporate Resources and the finance team.

Acknowledgement

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.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £10,958k (being 1.75% of gross revenue expenditure). We considered whether this level remained appropriate during the course of the audit, and following receipt of the draft financial statements revised this figure to £9,988k (being 1.75% of gross revenue expenditure included in the draft financial statements).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £499k. This was also revised down from the figure of £548k reported in our audit plan, reflecting the change made to our materiality level.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at South Gloucestershire 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; and • the culture and ethical frameworks of local authorities, including South Gloucestershire Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>To mitigate this risk we:</p> <ul style="list-style-type: none"> • reviewed key accounting estimates, judgements and decisions made by management. • reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation. • reviewed significant, unusual transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. Our review of journal controls identified that the Council operates a journals input policy which does not require all journals to be authorised prior to input onto the system. We have requested that those charged with governance consider this policy and confirm that they are satisfied with it. Our sample testing of journal entries did not identify any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p> <p>The Council is required to include Assets Held for Sale in its financial statements at the lower of carrying value and fair value less costs to sell. Fair Value is defined by IFRS13. There are also extensive disclosure requirements under IFRS 13 which the council need to comply with.</p>	<p>To mitigate this risk we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed the controls put in place by management to ensure that the carrying values of property, plant and equipment and assets held for sale are not materially different from fair value at the year end and evaluated the judgements made by management. • reviewed the competence, expertise and objectivity of the management experts used. • reviewed the instructions issued to valuation experts and the scope of their work. • discussed the basis on which the valuations were carried out with the Council's valuers. • considered the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations processed during the year to ensure they were input correctly into the Council's asset register. • reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice. 	<p>Prior to the commencement of our audit, management identified three assets with a total net book value of £6,859k that had last been valued in 2011/12. Whilst we were able to conclude that these assets were not materially misstated, these assets were not revalued with sufficient regularity as required by the Code and the Council's accounting policies.</p> <p>Our testing of the accounting entries for individual revaluation movements identified that the charges to the Comprehensive Income and Expenditure account and Revaluation Reserve for a specific asset were each overstated by £1,614k.</p> <p>Our consideration of the carrying value of those assets not valued in year against their current value identified that they were materially understated. The Council revalued a number of these assets following submission of the draft financial statements to ensure that in totality, the carrying value of its land and building assets was not materially different to their current value. This resulted in an increase in the value of Property, Plant and Equipment in the Council's Balance Sheet of £16,259k.</p>

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its Balance Sheet, represents a significant estimate in the financial statements.</p>	<p>To mitigate this risk we:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated. • assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension liability valuation. • confirmed the reasonableness of the actuarial assumptions adopted in the valuation. • reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the report from your actuary. • considered the information used by the actuary in their valuation to confirm that it was reasonable and in line with our expectations. 	<p>From the work performed we did not identify any issues in relation to valuation of pension fund net liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals are understated	<p>To mitigate this risk we:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle and walked through the key controls to assess the whether those controls are designed effectively. reconciled the payroll expenditure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and payroll subsidiary system. performed a trend analysis of monthly payroll data to identify any unusual variances for further investigation. 	From the work performed we did not identify any issues in relation to completeness of employee remuneration.
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period	<p>To mitigate this risk we:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, including the SWIFT sub-system, and walked through the key controls to assess the whether those controls are designed effectively. tested for unrecorded liabilities through review of payments made after the year end to ensure that liabilities were recorded in the correct accounting period. gained an understanding of the year end accruals process to ensure that this is robust. 	From the work performed we did not identify any issues in relation to completeness of year end creditors and accruals.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>To mitigate this risk we:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements. reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure. tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. tested the classification of income and expenditure reported within the Cost of Services section of the CIES. reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. Reviewed the subjective analysis disclosure note for compliance with the Code. 	<p>Our testing identified that the Council had omitted a required segmental disclosure note from the original draft of its financial statements.</p> <p>The Council identified a disclosure adjustment that was required to Note 7 of the draft financial statements totalling £2,148k. A reclassification of this amount was required to ensure that the totals in the Note correctly cast.</p> <p>The Council also restated Note 44 of the draft financial statements, which reports the changes made to the prior period income and expenditure figures to arrive at the restated 2015/16 comparatives.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Quality of the Council's draft accounts, and effectiveness of quality control arrangements</p>	<p>In previous years we have reported that the Council's draft financial statements have not balanced. These errors were not detected by the Council's arrangements for the review of the draft accounts.</p> <p>Our 2015-16 Audit Findings report included a number of recommendations designed to improve the effectiveness of these arrangements.</p>	<p>To mitigate this risk we:</p> <ul style="list-style-type: none"> discussed with officers their plans to develop the Council's processes for quality review of the draft financial statements, and to improve the quality of Council's underlying working papers. provided a checklist detailing common issues noted at our audits nationally, and in the Council's draft accounts in previous years, to enable more effective review of the draft accounts by senior officers. Reviewed the draft financial statements and accompanying working papers upon their receipt, with our audit approach providing evidence of the effectiveness of the changes implemented by senior finance management. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our review of the Council's financial statements did not identify any fundamental issues, such as statements not balancing.</p> <p>Our review of the Council's working papers noted that quality improvements had been made since the prior year, and officers responded to any requests for additional information promptly.</p> <p>The Council should seek to continue this improvement trajectory into the new financial year.</p>

Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that this was appropriate.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Council has set out its policy for revenue and funding in the accounting policies reported in the financial statements. 	<p>The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code). Income is not an area that requires significant judgement or estimation.</p> <p>The disclosure of the accounting policy is adequate.</p>	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Revaluations and impairments of PPE Accounting for schools non-current assets Recognition of PFI assets and liabilities Allowance for bad and doubtful debts Accruals Valuation of pension fund net liability and LGPS assets Provision for NNDR appeals Other provisions 	<p>The estimates and judgements made by management are in line with the Code's expectations, and disclosed appropriately, except where separately considered below.</p> <p>Three accounting policies were added following audit review:</p> <ul style="list-style-type: none"> Assets Held for Sale Expansion of the policies for PFI and IAS 19 to include the accounting treatment in the comprehensive Income and expenditure account Fair Value of financial assets and liabilities 	 Green

Assessment

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Corporate Resources has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Judgements and estimates– land and buildings not revalued in the year	<p>The Council carries out a rolling valuation programme that ensures all property, plant and equipment required to be measured at current value is revalued sufficiently regularly to ensure that the carrying amount is not materially different from the current value at the year end and as a minimum every five years.</p> <p>The Council has not revalued all assets within the land and buildings class of asset in the year. In order to consider whether asset values are materially correct at 31 March 2017 officers have considered the impact national indices would have and their applicability to the local market.</p>	<p>Following updates made to the valuation of land and buildings in the financial statements, described later in this section, we have sufficient assurance that the carrying value of land and buildings is not materially different to the their current value.</p> <p>We have also discussed with officers the processes to be adopted in future years to ensure that this consideration is fully made prior to the submission of the draft financial statements to audit to ensure that the requirement for adjustments is minimised.</p>	 Amber
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	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.	 Green

Assessment

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
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Chair of the Audit and Accounts Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the Audit and Accounts Committee papers.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to confirm the Council's bank balances, investments and borrowing. This permission was granted and the requests were sent. All bank balances and short term investments requests were returned with positive confirmation, however requests regarding borrowing and long term investments were not received so we undertook alternative procedures, including a review of correspondence between the Council and the borrower/investor, a review of online accounts and year end statements and a review of the Council's bank accounts to identify any further transactions with lenders/borrowers. No issues were noted.
6.	Disclosures	<ul style="list-style-type: none"> Key disclosure adjustments are reported in pages 24 to 25 of our report.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following 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 information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	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 £350m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is currently underway, and it is due to be completed prior to the Audit and Accounts Committee 26 September 2017.</p>

Internal controls

	Assessment	Issue and risk	Recommendations
1.	 Red	<ul style="list-style-type: none"> The CIPFA Code requires the Council to revalue its land and buildings at a minimum of every five years. The Council identified that in 2016/17, three assets had last been valued six years ago. The CIPFA Code also requires the Council to ensure that the carrying value of land and building assets in the Balance Sheet is not materially different to their current value. Our audit identified a material understatement of the Council's land and building assets in 2016/17 which required additional valuations to be reflected in the financial statements following their submission to audit. <p>Land and buildings represent a significant proportion of the Council's total assets, and their valuation is dependent upon key judgements and estimations which can fluctuate based upon the prevailing market conditions. There is therefore a significant risk of material misstatement in respect of their valuation in the Council's financial statements.</p>	<ul style="list-style-type: none"> The Council should ensure that land and building assets are valued at a minimum of every five years. 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.
2.	 Amber	<ul style="list-style-type: none"> The Council has historically adopted a policy in respect of journal entries that does not require a second person to authorize entries prior to their input. There is therefore a risk that erroneous or fraudulent journal entries could be posted to the financial ledger. 	<ul style="list-style-type: none"> Those charged with governance and officers should confirmed that they remain satisfied with the Council's journal entry policy.

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Assessment
 Significant deficiency – risk of significant misstatement
 Deficiency – risk of inconsequential misstatement

Internal controls – review of issues raised in prior year

	Assessment	Recommendation previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> • System administration roles. Management should review the allocation of system administrator rights and confirm access requirements or process requirements of staff with no direct responsibility for the Civica system. Where processes relating to payroll functional requirements are concerned, training should be provided to the financial system administrators and removed from the payroll team. 	<ul style="list-style-type: none"> • Administrator access of the Civica system has now been limited to the Council's two system administrators and the Council's IT lead for Civica.
2	➤	<ul style="list-style-type: none"> • Lack of authorisation requirement in user management. Senior management should consider reviewing the Civica user management procedure and introducing management procedures whereby changes cannot be made until appropriate authorisation is received in writing (emails are acceptable). • A regular review of user access is conducted which considers whether the user should have access and whether their access level is appropriate for their role. 	<ul style="list-style-type: none"> • New user and change requests are now only actioned following authorised approval by the individual's line manager and a record is kept of the action. • A regular review of access levels and privacy groups has not yet been introduced. The Council plans to undertake a full review of user access in the next 12 months following the implementation of the new Finance structure post April 2018. This will be a major project and will need to be appropriately resourced and managed.
3	✓	<ul style="list-style-type: none"> • Production of accounts document. The finance team should review the methodologies and working papers used to prepare the draft accounts, to ensure accounting entries made outside of the ledger are robust, and that the accounts balance. • The finance team should review the coding structure of the ledger, notably the CIES and MIRS, to reduce the level of manual adjustments outside of the ledger, and to allow the production of the accounts more directly from ledger reports. • Senior finance officers should undertake more robust review of the draft financial statements, including review of the checklists provided, independently from the officers preparing the accounts, and ensure any imbalance is reviewed and resolved before the draft accounts are submitted to members and for audit. 	<ul style="list-style-type: none"> • The 2016/17 accounts were prepared in Microsoft Excel, which resulted in a significant improvement in the arithmetical accuracy and consistency of the draft accounts. The Excel workbook was also linked to a separate Microsoft Word document which was used to compile the final set of financial statements in order to achieve a better overall presentation compared to prior years. In contrast to 2015/16, the draft accounts presented for audit balanced and the working papers showed notable improvement. The overall presentation and layout of the draft financial statements was also notably improved. • Management have implemented a process for review of the draft financial statements which includes standard quality control checklists. These are completed independently from the officers preparing the accounts. The updated quality control processes have made a notable improvement to the quality of the working papers provided to audit.

Assessment

- ✓ Action completed
- In progress
- X Not yet addressed

Internal controls – review of issues raised in prior year (continued)

	Assessment	Recommendation previously communicated	Update on actions taken to address the issue
4	➤	<ul style="list-style-type: none"> • Creditors and receipts in advance. Officers should review balances held in creditors to ensure that all relate to valid creditors or receipts in advance, and that any balances related to income received, where no conditions are outstanding, are included as income, and if appropriate, included in earmarked reserves until applied. 	<ul style="list-style-type: none"> • Management undertook a detailed balance sheet review in 2016/17 which has resulted in the creation of fourteen new earmarked reserves and the use of the Budget Carry Forward Reserve to hold eleven grants without conditions totaling £937k for service spend in 2017/18. • We did however note non-trivial historic balances remained within the accruals for Council Tax and Business Rates debtors and creditors. Where these 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.

Assessment

- ✓ Action completed
- In progress
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
<p>1 Following the review of assets not valued in 2016/17, the Council undertook additional valuations on land and building assets to ensure that their carrying value was not materially different to their current value. This resulted in an increase to the property, plant and equipment total in the Balance Sheet of £16,259k.</p> <p>The adjustments also resulted in changes to the Movement in Reserves Statement and Cash Flow Statement and the disclosure notes that reflect these balances and transactions.</p>	<p>Dr Impairment losses on non-current assets charged to the revaluation reserve 1,400</p> <p>Cr Cost of Services 630</p> <p>Cr Surplus of Revaluation of Property, Plant and Equipment 17,029</p>	<p>Dr Property, Plant and Equipment 16,259</p> <p>Cr Revaluation Reserve 15,629</p> <p>Cr Capital Adjustment Account 630</p>	<p>Cr Total Comprehensive Income and Expenditure 16,259</p>
Overall impact	£16,259 (net)	Net nil impact	£16,259

Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
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) 1,614 Dr Surplus on revaluation of property, plant and equipment 1,614	Cr Capital Adjust Account 1,614 Dr Revaluation Reserve 1,614	The Total Comprehensive Income and Expenditure position and the overall Balance Sheet position are not affected by this misstatement. A correction will take place in the 2017/18 statement of accounts when the asset is revalued.
2 The deferred liability relating to ex-Avon loan debt is not split between its short term (£677k) and long term (£16,243k) element in the Balance Sheet. Instead, the total liability is shown as a long term liability.	No impact	Cr Short Term Liabilities 677 Dr Long Term Liabilities 677	To be adjusted from 2017- 18.
Overall impact	Net nil impact	Net nil impact	

Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	2,148	Note 7 – Expenditure and Funding Analysis	Prior to audit review of the Note, the Council identified a reclassification adjustment in the ‘Net Expenditure Chargeable to the General Fund’ note of £2,148k. The value was moved from the ‘Corporate and Central services’ line to the ‘Environment and Community’ line to ensure that the totals correctly cast.
2 Disclosure	Various	Note 7 – Expenditure and Funding Analysis	To comply with a Code requirement, the Council added a segmental disclosure of the income it receives from external and internal sources.
3 Disclosure	Various	Note 15 – Financial Instruments	Adjustments were made to the debtor and creditor figures included in the financial instruments to ensure that the values disclosed met the definition of a financial instrument. For example, prepayments were excluded from the disclosures as they do not meet the definition of a financial instrument in the accounting standards. The changes made were: Debtors – decrease of £1,312k Creditors – increase of £802k
4 Disclosure	N/A	Note 17 – Fair Value	A number of narrative disclosures were added to Note 17 – Fair Value to ensure compliance with Code requirements.
5 Misclassification	11,491	Note 18 - Creditors	A misclassification of the City Region Deal creditors was identified. These were reclassified from the ‘Central Government bodies’ line to Other local authorities’ line.
6 Disclosure	6	Note 37 – Termination Benefits	An individual’s payment was omitted from the original disclosure. The payment of £6k was added to the £0-20k banding total. Two other individual disclosures were amalgamated into a single band of ‘£100,001-£150,000’ as permitted under the Code.
7 Disclosure	9,000	Note 42 – Nature and extent of risk arising from financial instruments	The “market risk - interest rate” risk disclosure was originally based upon Capita's premature repayment rate, however it should be based upon Capita’s new loan rate report. This reduced the ‘decrease in fair value of fixed rate borrowing’ line by £9,000k

Misclassifications and disclosure changes (continued)

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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
8 Disclosure	Various	Note 44 – Re-classification of prior year balances	Following an audit request for further support for this Note, the Council reviewed the draft disclosure and made various amendments to the values included in “Original 2015/16 (Note 15)” and “Adjustments” columns.
9 Disclosure	3,619	Balance Sheet - Current liabilities	The draft accounts applied inconsistent treatment between the 2015-16 and 2016-217 cash and cash equivalents balances. To correct, the bank overdraft has been included within the balance for cash and cash equivalents within current assets, rather than separately disclosed as a current liability. The breakdown is detailed within Note 16.
10 Disclosure	995	Balance Sheet - PFI Liability	The PFI liability was not originally split between its short term (£995k) and long term (£8,528k) element in the Balance Sheet. Instead, the total liability was shown as a long term liability.
11 Disclosure	2,149	Note 24 – Cash Flow Statement – investing activities and Note 25 – Cash Flow Statement – financing activities	Following a review of the cash flow statement it was identified that a balance of £2,149k was incorrectly included within the ‘Purchase of property, plant and equipment and intangible assets’ line within Note 24 and the ‘Cash payments reducing finance lease liabilities and PFI contract liability’ line within Note 25. The balance in question related to an adjustment to the Council’s PFI liability that did not represent a cash transaction and was therefore removed from the cash flow statement and related notes.
12 Disclosure	Various	Various	A number of other disclosure and reclassification changes were made to the draft financial statements to correct minor arithmetic, spelling and grammar issues. Minor disclosure changes were also made to a number of notes to ensure that they were clear and understandable to the reader, were in accordance with accounting standards and covered all of the disclosure requirements of the Code.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place 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. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in 2017 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 2017.

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.

Significant qualitative aspects

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 established processes and controls to the development and subsequent monitoring of its budget, including savings requirements.
- The Council has a good track record of delivering its budgets and savings plans, and the MTFP is based upon assumptions that appear to be based upon reasonable evidence at the time it was developed.
- The Council is aware of the budget gap over the medium term, and is planning and developing responses to this.
- The Council's children's services were rated as inadequate by Ofsted in their last inspection; the results of which were published in February 2017.
- The Council has subsequently taken a number of actions, and has submitted its improvement plan to Ofsted, however it is too early for a re-inspection to have taken place in order to determine if arrangements have improved.

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 30 to 33.

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 inspection, 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 B.

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	Work to address	Findings and conclusions
<p>Financial Strategy and position</p> <p>The Council has a gap in the Medium Term Financial Plan (MTFP) from 2019/20 onwards, and like other councils faces significant challenges to continue to deliver balanced budgets, including the delivery of large savings programmes.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the Council's 2016/17 savings plan to determine whether this was achieved post year end • reviewed the assumptions within the MTFP • reviewed the progress the Council has made in identifying the savings plans required in future years 	<p>As reported to Cabinet in July 2017, the Council fully achieved its 2016/17 savings target of £7.99m, with 97.5% of this delivered through permanent savings and the remainder through short term measures. In doing so, the Council achieved a £1.106m revenue budget surplus for the 2016/17 financial year. This provides assurance that arrangements for budgeting, monitoring and delivering financial plans are appropriate.</p> <p>The 2017/18 to 2020/21 budget report and appendices were discussed and agreed at full Council in February 2017. The Council set a balanced 2017/18 revenue budget, after a £6.4m savings target, and a balanced 2018/19 revenue budget after savings of £6.1m and a £6.9m use of reserves. The 2019/20 and 2020/21 revenue budgets are unbalanced, with a cumulative deficit by the end of 2020/21 of £23.9m. The Council is aware of the requirement to continue to work to close this budget gap.</p> <p>As part of the budget preparation process, the Policy and Resources Committee considered the assumptions to be applied to the MTFP in June 2016, with further consideration in October 2016. The MTFP was developed following the decision to accept the four year finance settlement, which provides the Council with greater certainty over its key Government funding over the period. Our review of the assumptions adopted within the MTFP confirms that they appear to have been reasonable and appropriate at the time the MTFP was being drafted.</p> <p>Recent political events, including the outcome of the US and UK elections and the start of Brexit negotiations, create future economic and political uncertainties which have yet to be fully considered in an updated MTFP. Whilst the Council has historically adopted prudent assumptions, and considered events such as the Brexit referendum during the 2016/17 budget planning process, it will be important to maintain this approach through this period of uncertainty in the subsequent updates to the MTFP.</p> <p>Effective arrangements are in place for capital planning. The 3-year capital plan is balanced over the first two years, with a small shortfall currently identified in year 3 (2019/20). The assumptions applied to funding are reasonable, and quarterly reviews of the plan ensure that any required changes or rescheduling of works can be completed in a timely manner.</p> <p><i>Continued over page</i></p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk	Work to address	Findings and conclusions
<p>Financial Strategy and position <i>Continued</i></p>		<p>The General Fund balance is currently below the target level of £9m. Over the period 1 April 2016 to 31 March 2020, the Council forecasts that it will utilise £39.284m of its earmarked revenue reserves (excluding the General Fund), leaving a balance of £13.550m at 31 March 2020. At this point, the Council's financial risk reserve is forecast to have been fully utilised supporting the revenue budget. Whilst the use of reserves in itself does not represent a risk, the Council will need to ensure that any transformation projects funded from reserves have the desired long-term effects, and will need to ensure that it monitors and evaluates the benefits realised from these investments. The Council will also need to identify new or increased revenue streams or recurrent cost savings in order to fund the ongoing base budget requirements.</p> <p>The Council has a strong track record of delivering its savings plans over a number of years, and we are able to conclude that the Council has a structured approach to identifying, developing and agreeing the required savings plans. A savings plan was taken to the February 2017 Council meeting which identified savings plans to the end of the 2019/20 financial year.</p> <p>Plans are owned by the relevant department, with support provided throughout the process by the transformation team. Savings are identified in a number of ways, including through the use of benchmarking tools. There is also a desire to ensure that there is knowledge transfer into the Council, including best practice examples, which can come from external organisations or new members of staff, as well as through training and other skills development processes which are funded from the dedicated enabling budget.</p> <p>The Council has a dedicated programme office which reviews savings plans on a monthly basis. A monthly monitoring report includes detail on specific savings schemes, highlighting key risks through a RAG rating system, and also setting out the current achievement, projected outturn and value of short term measures introduced in the current year and to the end of 2019/20. Savings were also reported through the quarterly Revenue Budget Monitoring reports taken to Policy and Resources Committee at an organisational level throughout the financial year.</p> <p>Our consideration of specific savings schemes identified that some included a number of individual schemes, all fully worked up and considered through the appropriate approval processes, providing appropriate levels of consideration and scrutiny prior to schemes being agreed.</p> <p>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.</p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Ofsted inspection of children's services</p> <p>Ofsted issued a report on the Council's children's services in 2016/17 which rated these as 'inadequate'.</p> <p>Children's services are a key function of the Council, with the cost of "integrated children's services" representing 22% of the Council's 2016/17 budget.</p> <p>Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.</p>	<p>We have:</p> <ul style="list-style-type: none"> Assessed the immediate actions that the Council has introduced following the report issue in February 2017 Reviewed the plans for addressing the findings 	<p>Following the release of the Ofsted report in the public domain, the Council issued a press release on its website and a news article on the main homepage setting out its immediate response to the findings. This article noted priority measures which had already been completed or which are in the process of being implemented, including the creation of an improvement board for the 0-25 disability service and the development of an improvement plan for all of recommendations included within the report. Whilst the Council identified the immediate actions undertaken, it also noted the areas of good practice or strong arrangements identified by Ofsted and the Council's wish to ensure that these areas are continued. A prompt change in the management structure of the 0-25 service was implemented following the inspection report also, and service staff are positive following management changes which is important for morale and the service following the disappointing inspection results.</p> <p>Following this, a Children's Service Improvement Board was created, independently chaired by an individual with previous experience of working with councils who have been found to be inadequate by Ofsted. The Improvement Board comprises South Gloucestershire Council lead members and senior officers, representatives from partner agencies (police, schools and health) and the Chair of the Local Safeguarding Children Board (LSCB). The appointed Department of Education advisor is also invited to attend. The Board first met in May 2017 and has met monthly subsequently. At its first meeting the Board confirmed that it would meet until Ofsted's inadequate rating was lifted and the LSCB was considered to be operating effective challenge and scrutiny.</p> <p>In May 2017, the Council's Improvement Plan was submitted to Ofsted, setting out how the Council would address the concerns and issues raised from the report. This submission followed wide consultation and scrutiny by a number of internal and external sources, including service managers and staff within integrated children's services, South Gloucestershire Council's Children, Young People and Families Partnership, the Children, Adults and Health Committee, the LSCB, the Department for Education and the Local Government Association.</p> <p>The Improvement Plan includes clear actions, designed to address all of the recommendations within Ofsted's report and identifies lead officers and deadlines. The improvement areas are clearly mapped Ofsted's recommendations and also picks up areas of improvement noted in the report that did not constitute formal recommendations. The Plan also sets out the overall governance arrangements for the Integrated Children's Service. Below the Improvement Plan sit Service Development Plans, owned by the Service Managers, designed to help the Council achieve a 'Good' rating.</p> <p>The Improvement Board takes ownership for monitoring and review the progress against the actions listed in the Improvement Plan. Actions are RAG rated, and the latest versions of the Plan note a number of completed actions, providing assurance that actions are being monitored and challenged to ensure that they continue to progress. Whilst there are some red rated risks, comments against these confirm that actions to ensure delivery are being developed and taken.</p> <p><i>Continued over page</i></p>

Key findings

Significant risk	Work to address	Findings and conclusions
<p>Ofsted inspection of children's services <i>Continued</i></p>		<p>The Council has also begun a review of its 'Early Help Services'. This was an area of improvement identified within the Ofsted report, with a requirement to evaluate the impact of the service. A paper taken to the Children, Young People and Family Partnership in July 2017 noted that the Council were in process of inviting expressions of interest to complete an independent review of the service. The overall objective of the review is to examine the current early help model and delivery arrangements, identifying its strengths and weaknesses, and to bring forward proposals for a revised future model and delivery arrangements. It is proposed that the final report and recommendations will be issued by 30 November 2017.</p> <p>A Special Educational Needs and Disability peer review has been undertaken by the Local Government Association (LGA), with a focus on the full Education, Health and Care Plan process and cases, although the results of this review have yet to be reported at the time of writing.</p> <p>The first Ofsted monitoring visit is scheduled for late September, with a focus on the 0-25 service per the action and decision log of the Integrated Children's Service Governance Board. The Department for Education will undertake a 6 month update visit, currently scheduled for October. It is considered that it will be 12-18 months (i.e. 2019) before a full re-inspection takes place at the earliest.</p> <p>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 which indicates a positive direction of travel, it is currently too early to properly conclude on the effectiveness of these arrangements. 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.</p>

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

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Other statutory powers and duties

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the Council is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">• We have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none">• We have not used this duty.

Section 5: Fees, non-audit services and independence

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

Fees

	Proposed fee £	Final fee £
Council audit	129,930	129,930
Grant certification	10,530	* 10,530
Total audit fees (excluding VAT)	140,460	140,460

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

* Work in progress – final fee to be confirmed in Certification Report

Grant certification

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 under 'Fees for other services'.

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 Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Certification of the Teacher's Pension return	4,200 - TBC
• Certification of the Local Transport Grant	4,200 (cost to Council 2,100 as 50% funded by Bristol City Council) - TBC
Non-audit services	
• Cost Assurance review of telecommunications bills (contingent fee)	4,162

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to South Gloucestershire Council	Fees	Threat?	Safeguard
Audit related services	Certification of Teacher's Pension Return	4,200	• No	N/A
	Certification of Local Transport Grant (50% of fee funded by Bristol City Council)	4,200	• No	N/A
Non-audit services	Cost Assurance review of telecommunications bills (contingent fee)	4,162	• No	N/A
	TOTAL	12,562		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Section 6: Communication of audit matters

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Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The Council should ensure that land and building assets are valued at a minimum of every five years.	High	Ahead of the 2017/18 valuation programme, the valuation review dates held in the fixed asset register will be scrutinised on a line by line basis to ensure that all assets have been revalued within the required five year cycle.	September 2017, Senior Finance Officer
2	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.	High	In addition to the Council's five year rolling programme of valuations, all schools are revalued every year, as are other ad hoc high value assets. In future, ahead of the year end valuation programme, Finance and Property Services will review the carrying value of all land and buildings assets, to critically assess any additional groups of assets (or individual assets) that should be included in that year's valuation cycle, in order to ensure that the balance sheet fully reflects the total current value of the Council's assets. This process will form part of the valuation service level agreement, determined each autumn.	September 2017, Senior Finance Officer
3	Those charged with governance and officers should confirmed that they remain satisfied with the Council's journal entry policy.	Medium	Management are not of the view that the current journal policy needs to be changed due the system based controls (e.g. access controls ensure the users who can enter journals is restricted, journals must balance to zero and use valid codes) and other controls (notably close budget monitoring and control reconciliations) mean the risk of fraud or error is mitigated.	No further action considered necessary
4	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.	Low	Following a thorough expert review of collection fund processes and methodology in January 2017 and to close earlier in 2016/17, management has accepted more time would be needed to accurately analyse and resolve these historical balances. This activity has commenced as demonstrated by the information provided to Grant Thornton, and historical accruals will be fully and appropriately accounted for in 2017/18.	Technical Accountant, September 2017

Controls

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

B: Audit opinion

We anticipate we will provide the Council with a modified audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH GLOUCESTERSHIRE COUNCIL

We have audited the financial statements of South Gloucestershire Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Collection Fund and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting

estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
 - we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness we identified the following matter:

In February 2017, Ofsted published a report on the findings of its inspection of 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 Board in South Gloucestershire. The report concluded that children's services in South Gloucestershire were inadequate. Specifically, the report concluded that arrangements for children who need help and protection and leadership, management and governance of children's services were inadequate.

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.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matter described in the Basis for qualified conclusion paragraphs above, 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 2017.

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 Act 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 2017. 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 2017.

[Signature to be inserted]

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

Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

[Date to be inserted]



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