The Annual Audit Letter
for South Gloucestershire Council

Year ended 31 March 2016
October 2016

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## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive summary</td>
<td>3</td>
</tr>
<tr>
<td>2. Audit of the accounts</td>
<td>5</td>
</tr>
<tr>
<td>3. Value for Money conclusion</td>
<td>9</td>
</tr>
<tr>
<td>4. Working with the Council</td>
<td>12</td>
</tr>
</tbody>
</table>

### Appendices

A Reports issued and fees 15
Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Gloucester Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)’s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – ‘Auditor Reporting’.

We reported the detailed findings from our audit work to the Council’s Audit and Accounts Committee as those charged with governance in our Audit Findings Report on 27th September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO’s Code, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

• give an opinion on the Council's financial statements (section two)
• assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 28 September 2016.

Certificate

We certified that we had completed the audit of the accounts of South Gloucestershire Council in accordance with the requirements of the Code on 28 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Accounts Committee in our Annual Certification Letter.
Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered the accounts in line with the timescale we agreed with you.
- Sharing our insight – through regular Audit and Accounts Committee Updates and by facilitating a workshop with officers to help them identify an action plan on how the closure of the financial statements could be brought forward in subsequent years.
- Thought leadership – through the sharing of our publications and workshops
- Provide training – through the provision of technical workshops
- Providing information – through, for example, providing information from our CFO Insights tool.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council’s staff.

Grant Thornton UK LLP
October 2016
Audit of the accounts

Our audit approach

Materiality
In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £10,698,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as the disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements due to the public interest in these disclosures and the statutory requirement for them to be made. We set a lower threshold of £5,000, above which we reported errors to the Audit and Accounts Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:
• the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
• significant accounting estimates made by management are reasonable; and
• the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.
## Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuation of property plant and equipment</strong>&lt;br&gt;The Council revalues its assets on a rolling basis with assets revalued at least every five years. 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.</td>
<td>As part of our audit work we have:&lt;br&gt;• Identified the controls put in place by management to ensure that the carrying values of property, plant and equipment, were not materially different from current value at the year end. We also assessed whether these controls were implemented as expected, and whether they were sufficient to mitigate the risk of material misstatement.&lt;br&gt;• reviewed management's processes and assumptions for the calculation of the estimate.&lt;br&gt;• reviewed the competence, expertise and objectivity of any management experts used.&lt;br&gt;• reviewed the instructions issued to valuation experts and the scope of their work&lt;br&gt;• held discussions with the Council’s valuer about the basis on which the valuation was carried out, challenging the key assumptions.&lt;br&gt;• reviewed and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.&lt;br&gt;• tested revaluations made during the year to ensure they were input correctly into the Council’s asset register&lt;br&gt;• evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</td>
</tr>
<tr>
<td><strong>Valuation of pension fund net liability</strong>&lt;br&gt;The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</td>
<td>As part of our audit work we have:&lt;br&gt;• 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 were sufficient to mitigate the risk of material misstatement.&lt;br&gt;• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out.&lt;br&gt;• undertaken procedures to confirm the reasonableness of the actuarial assumptions made.&lt;br&gt;• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</td>
</tr>
</tbody>
</table>
Audit of the accounts (continued)

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting for the Better Care Fund (BCF)</strong></td>
<td>As part of our audit work we have:</td>
</tr>
<tr>
<td>The accounts are due to include new, material pooled budget disclosure, and underlying transactions re BCF. Judgement is required in assessing the required accounting treatment.</td>
<td>• identified the arrangements put in place by management to ensure that the BCF accounting entries and disclosures are not materially misstated. We have assessed whether these arrangements were implemented as expected, and whether they were sufficient to mitigate the risk of material misstatement.</td>
</tr>
<tr>
<td>Risks identified include:</td>
<td>• reviewed the signed s75 agreement, which is in place for all BCF transactions.</td>
</tr>
<tr>
<td>• Has the Council entered into appropriate arrangements to account for BCF monies?</td>
<td>• reviewed the Council's processes for obtaining the information it needs to reflect the correct transactions, balances and disclosures in its accounts.</td>
</tr>
<tr>
<td>• Does the Council have appropriate processes in place to obtain the information it needs to reflect the correct transactions, balances and disclosures in its accounts?</td>
<td>• reviewed the reasonableness of the Council's judgements in assessing the Council's control over the funds, and hence adopted the correct accounting treatment in the accounts.</td>
</tr>
<tr>
<td>• Are the judgements made by the Council in assessing it's control over the funds reasonable, and hence has it adopted the correct accounting treatment in the accounts?</td>
<td>• reviewed to ensure that BCF transactions, balances, and disclosures in the accounts agreed to underlying evidence.</td>
</tr>
<tr>
<td>• Do BCF transactions, balances, and disclosures in the accounts agree to underlying evidence?</td>
<td><strong>We did not identify any issues to report</strong></td>
</tr>
</tbody>
</table>
Audit of the accounts

Audit opinion
We gave an unqualified opinion on the Council's accounts on 28 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. The draft accounts presented for audit contained an imbalance, with an unreconciled difference of £4,882k. Subsequently officers provided audit amendments to reduce the imbalance to £772k which was then included within creditors. Similar issues have been noted in three of the last four years' annual accounts and this error had not been detected by the Council's arrangements during the review of the draft accounts. This is disappointing to note, as we had provided checklists to officers to enable this issue to be identified and corrected during the accounts preparation. The bringing forward of the accounts deadlines will provide the Council with an even greater challenge unless they can ensure they can address these weaknesses next year.

Subject to the imbalance noted above, we note an overall improvement in the quality of the draft accounts compared to previous years. The arithmetical accuracy and consistency of the draft accounts was improved, and historic issues relating to the Movement In Reserves Statement were addressed. Fewer mis-classification and disclosure changes were noted during the audit than in previous years.

Issues arising from the audit of the accounts
We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Accounts Committee on 27 September 2016.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Whole of Government Accounts (WGA)
We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not identified any issues that have required us to apply our statutory powers and duties under the Act.
Value for Money conclusion

**Background**
We carried out our review in accordance with the NAO Code (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.*

**Key findings**
Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.
The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we raised the following recommendations to address our findings.

1. The finances of the BCF appeared to be discussed in the Partnership and Joint Commissioning Group and whilst the Integration is seen as key by the Council, the finances are not publicly reported through to the Children, Adults and Health Committee (CAH), who ultimately have responsibility for the BCF budget. We therefore recommended that the public reporting of the Better Care Fund finances is strengthened.

2. We recommended that if a document, which has been produced by a third party, is included within the public agenda pack, all attachments are made available and that the Council retains a copy of these documents.

**Overall VfM conclusion**
We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.
## Value for Money

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Financial Planning</strong></td>
<td>We have reviewed the assumptions behind the MTFP and the Corporate Plan. We have reviewed the savings plan to determine whether this was achieved post year end. We have also reviewed the Council's progress on reducing the budget gap.</td>
<td>We reviewed the 2015/16 savings plan and note that this was delivered to schedule. The 2016/17 savings plan was presented as part of the February 2016 budget report, along with the MTFP. The MTFP included a contribution to reserves in both 2016/17 and 2017/18 but in-year deficits from 2018/19 onwards totalling £48.6m. A draft paper has been reviewed that was presented to the Policy and Resources Committee on 5 October 2016. This paper shows that the MTFP has been revisited and revised. The MTFP still has in-year deficits forecast for future years however the Council is working towards reducing these deficits. Officers have confirmed that the first strand of the additional savings work in respect of the Digital Strategy Implementation Scheme was presented at the Policy and Resources Committee on 5 October 2016. The draft of this paper has been reviewed and is forecasting savings of around £2-3 million per annum before financing costs. The assumptions behind the MTFP were approved by the Policy and Resources Committee in June 2016 and these appear to be reasonable. These assumptions have also been revisited with the Council recognising that these will again need to be reviewed once further information is made available regarding the Autumn Statement, the Local Government Settlement figures, the developments in light of the EU Referendum decision, the Economy and the progress on Devolution. Again this appears to be reasonable. <strong>Our overall conclusion is that whilst the Council is still forecasting in-year deficits in future years in its MTFP, the Council recognises that this is the case and is continually monitoring the situation and working towards reducing the funding gap. On that basis, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</strong></td>
</tr>
</tbody>
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## Table 2: Value for money risks (continued)

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health and Social Care</strong></td>
<td>We have reviewed the Better Care Fund (BCF) arrangements to ensure that consistent treatment has been applied. We have also considered the partnership arrangements around the BCF.</td>
<td>A review of the Better Care Fund (BCF) has illustrated that the Council and the Health bodies appear to be working together, particularly through the Partnership and Joint Commissioning Group and Health and Wellbeing Board. Both of these being made up by a mixture of Health and Local Government representatives. We note however that not all information is filtered through from these bodies to the Council's own governance structure, in particular around finances. The finances of the BCF appear to be discussed in the Partnership and Joint Commissioning Group and whilst integration is seen as key by the Council, the finances are not publicly reported through to the Children, Adults and Health Committee (CAH), who ultimately have responsibility for the BCF budget. We would therefore recommend that the public reporting of the BCF finances is strengthened.</td>
</tr>
<tr>
<td></td>
<td>In June 2016, the Health and Wellbeing Board was presented with the 2016/17 BCF plan. This was an extremely detailed document which included attachments and references to further documentation. The version held on the public website is a PDF copy and therefore the attachments, whilst appearing on the PDF version, were not accessible. A copy of these documents was requested from the Council, however a copy was not able to be provided at the time of giving our conclusion, as the report was drafted by a third party, in this case an Officer within the CCG. We would therefore recommend that if a document is included within a public reporting pack, all attachments are made available and that the Council retains a copy of these documents.</td>
<td>Our overall conclusion on Health and Social Care Integration is positive and on that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements surrounding collaboration with Partners to deliver a joint health care system.</td>
</tr>
</tbody>
</table>
Working with the Council

Our work with you in 2015/16
We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that is challenging but fair.

Sharing our insight – we provided regular Audit and Accounts Committee updates covering best practice. Areas we covered included 'Knowing the Ropes – Audit Committee Effectiveness Review', 'Making devolution work' and 'Reforging local government'. We have also shared with you our insights on advanced closure of local authority accounts, in our publication 'Transforming the financial reporting of local authority accounts' and facilitated a workshop with officers to help them identify actions on how the closure of the financial statements could be brought forward in subsequent years.

Thought leadership – We have shared with you our publication on 'Building a successful joint venture' and will continue to support you as you consider greater use of alternative delivery models for your services. Your Transport and Procurement Manager attended our income generation workshop in October along with representatives from the public and private sector.

Providing training – we provided your team with training on financial accounts and annual reporting. The courses were attended by your Financial Reporting Manager.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.
Working with the Council

Working with you in 2016/17

Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council’s 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with your Financial Reporting Manager. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This important accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.
Working with the Council

We will also continue to work with you and support you over the next financial year with the following areas. Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit
- Supporting development – we are in discussion with you on the faster close of the accounts preparation and will continue to liaise with relevant officers throughout the process
- Support outside of the audit – our advisory team are in discussion with you on Joint Ventures
Appendix A: Reports issued and fees

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

### Fees

<table>
<thead>
<tr>
<th></th>
<th>Planned £</th>
<th>Actual fees £</th>
<th>2014/15 fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory audit of Council</td>
<td>129,930</td>
<td>129,930</td>
<td>173,240</td>
</tr>
<tr>
<td>Housing Benefit Grant Certification</td>
<td>10,530</td>
<td>*10,530</td>
<td>14,040</td>
</tr>
<tr>
<td><strong>Total fees (excluding VAT)</strong></td>
<td><strong>140,460</strong></td>
<td><strong>140,460</strong></td>
<td><strong>187,280</strong></td>
</tr>
</tbody>
</table>

* Work in this area is currently in progress. Any proposed changes in fee will be discussed with the Council and are subject to approval by Public Sector Audit Appointments Ltd. The final certification fee will be reported in the Annual Certification Letter.

### Reports issued

<table>
<thead>
<tr>
<th>Report</th>
<th>Date issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Plan</td>
<td>June 2016</td>
</tr>
<tr>
<td>Audit Findings Report</td>
<td>September 2016</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
<td>October 2016</td>
</tr>
</tbody>
</table>

### Fees for other services

<table>
<thead>
<tr>
<th>Service</th>
<th>Fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit related services:</strong></td>
<td></td>
</tr>
<tr>
<td>- Grant certification</td>
<td>4,200</td>
</tr>
<tr>
<td>- Teachers Pensions Return</td>
<td>4,200</td>
</tr>
<tr>
<td>- Transport Grant</td>
<td></td>
</tr>
<tr>
<td><strong>Audit related services (excluding VAT)</strong></td>
<td><strong>8,400</strong></td>
</tr>
<tr>
<td><strong>Non-audit services:</strong></td>
<td></td>
</tr>
<tr>
<td>- Cost Assurance review</td>
<td>3,000</td>
</tr>
<tr>
<td>- Place Analytics</td>
<td>15,000</td>
</tr>
<tr>
<td>- CFO Insights</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Non-audit services (excluding VAT)</strong></td>
<td><strong>28,000</strong></td>
</tr>
</tbody>
</table>