



The Annual Audit Letter for Gloucestershire County Council and Pension Fund

Year ended 31 March 2019

August 2019



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Your key Grant Thornton
team members are:

Peter Barber

Key Audit Partner

T: 0117 305 7897

E: peter.a.barber@uk.gt.com

Katie Whybray

Manager

T: 0117 305 7601

E: katie.v.whybray@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Gloucestershire County Council (the Council) and the Pension Fund for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 26 July 2019.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, 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 and Pension Fund'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 and Pension Fund's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £17.46 million, which is 1.8% of the Council's gross revenue expenditure. We determined materiality for the audit of the Pension Fund's financial statements to be £23.78 million, which is 1% of the total net assets.
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Financial Statements opinion	We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 29 July 2019.
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Whole of Government Accounts (WGA)	We are currently undertaking our work on the Council's consolidation return following guidance issued by the NAO. The deadline for completion of this work is the 13 September 2019.
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Executive Summary

Value for Money arrangements We are unable to issue our Value for Money conclusion until we have determined a 2016/17 objection relating to the energy from waste scheme. The objectors have commenced legal action against the council in respect of procurement law in relation to this scheme and pending the outcome of this legal action we have decided that it would be appropriate to put the objection on hold for now because the outcome of the legal action could impact on our determination of the objection.
We have also not concluded on the 2016/17 and 2017/18 Value for Money conclusion for this same reason.
We will finalise our Value for Money Opinions for 2016/17, 2017/18 and 2018/19 once we have concluded our work on the objection.

Use of statutory powers and Certificate We have not exercised any of our additional statutory powers or duties.
We are unable to certify the closure of the 2018/19 audit of Gloucestershire County Council in the audit opinion due to the following:

- whole of Government Accounts statement (deadline 13 September 2019)
- opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 30 November 2019)
- outstanding 2016/17 objection relating to the energy from waste scheme which has yet to be concluded.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and Pension Fund financial statements, 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 the audit of the Council financial statements to be £17.46 million and determined materiality for the audit of the Pension Fund financial statements to be £23.78 million.

We also set a lower level of specific materiality senior officer remuneration at the Council of £0.031 million due to the sensitive nature of these.

We set a lower threshold of £0.87 million for the Council and £1.18 million for the Pension Fund, above which we reported errors to the Audit and Governance Committee, as Those Charged with Governance, in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the financial statements and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and Pension Fund.

We carried out our audits in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach was based on a thorough understanding of the Council and Pension Fund 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 Financial Statements (Council)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings	<p>We:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. 	<p>Our audit work identified the following issues:</p> <ul style="list-style-type: none"> accumulated depreciation totalling £130 million has not been written out on revaluation of assets. This does not impact the net value of assets held in the balance sheet, as the same value has been overstated in the Gross book value of the PPE assets revaluations which took place on the 1 April 2018 incorrectly included additions capitalised within 2018/19 depreciation charge on school assets overstated and gain on revaluation overstated. There is no overall impact on the net comprehensive income and expenditure position depreciation charge on non-school assets understated and the overall value of the assets overstated by £3.025 million. <p>With the exception of the issues above, we did not identified any further issues in relation to property, plant and equipment.</p>
Management override of internal controls	<p>We</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions 	<p>Our work did not identified any issues in respect of management override of controls to bring to your attention.</p>

Audit of the Financial Statements (Council)

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension net liability</p>	<p>We:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and obtained assurances from the auditor of Gloucestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>The Court of Appeal has ruled in its McCloud judgement that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>In light of this decision the Council requested from their actuary a full detailed ISA 19 report to include an assessment of the impact of the McCloud liability. This has identified an additional liability at the 31 March 19 of £3.4 million in relation to the McCloud adjustment on the Local Government Pension Scheme, £10.1 million in relation to the McCloud adjustment on the Fire Fighters Pension Scheme and a further adjustment of £6.6 million due to the updated Local Government Pension Fund actuary report calculation reflecting the actual investment performance in the financial year of the fund (original IAS 19 calculation was based on an estimate). The Council has adjusted for this in the final accounts.</p> <p>No further issues were identified in our review of the pension net liability.</p>

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of level 3 investments</p> <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end</p>	<p>We:</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; considered the competence, expertise and objectivity of any management experts used; reviewed the qualifications of the expert to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period. 	<p>Our audit work did not identify any issues in respect of the valuation of these investments</p>
<p>Management override of controls</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals Analysed the journals listing and determine the criteria for selecting high risk unusual journals tested high risk journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

In addition to the above, as with the Council (page 7) the Pension Fund was affected by the McCloud ruling regarding age discrimination. The impact was a £7 million, non-material, adjustment to the actuarial present value of promised retirement benefits disclosed in Note 26 of the financial statements. The Pension Fund has adjusted for this in the final accounts.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and Pension Fund's financial statements on 29 July 2019.

Preparation of the financial statements

The Council and Pension Fund presented us with draft financial statements in accordance with the national deadline. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audits to the Audit and Governance Committee on 29 July 2019.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council and Pension Fund.

Whole of Government Accounts (WGA)

We are currently undertaking our work on the WGA submission, the deadline for this is the 13 September 2019.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, or to apply to the Court for a declaration that an item of account is contrary to law.

Certificate of closure of the audit

We are unable to certify the closure of the 2018/19 audit of Gloucestershire County Council due to the following:

- whole of Government Accounts statement (deadline 13 September 2019)
- opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 30 November 2019)
- outstanding 2016/17 objection relating to the energy from waste scheme which has yet to be concluded.

Value for Money conclusion (Council only)

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

As noted earlier in this report, we are unable to issue our Value for Money conclusion until we have determined a 2016/17 objection relating to the energy from waste scheme. The objectors have commenced legal action against the council in respect of procurement law in relation to this scheme and pending the outcome of this legal action we have decided that it would be appropriate to put the objection on hold for now because the outcome of the legal action could impact on our determination of the objection.

We have also not concluded on the 2016/17 and 2017/18 Value for Money conclusion for this same reason.

We will finalise our Value for Money Opinions for 2016/17, 2017/18 and 2018/19 once we have concluded our work on the objection.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability	We considered the Council's medium term financial plan and, in particular, the outturn for 2018/19 and the Council's ability to manage demand and financial pressures over the medium to long term.	<ul style="list-style-type: none"> The Council set a net budget of £413.48 million for the 2018/19 financial year which was predicated on the delivery of £29.26 million of cost reductions and included an increase in council tax of 4.49% for the year which included a 2% national adult social care levy. The original budget was revised to incorporate the additional income from the business rates retention pilot of £4.60 million. 57% of the monies from the business rates retention pilot was allocated to the Children and Families budget, with the remaining 43% split between Adults and Communities and Infrastructure. The final reported outturn position was an underspend of £15.92 million before adjustments for 2018/19. After adjustments (transfers to reserves and carry forwards of unspent budgets) the final outturn position was an underspend of £2.91 million of which £2.86 million was transferred to the Transformation Reserve for future transformation initiatives and £0.05 million to a 'Vision 2050' working fund The Children's and Families directorate continues to face significant financial pressures with a reported overspend, before transfers and after the application of the £2.6 million one-off income from the business rates retention pilot and £0.43 million from the vulnerable people's reserve, of £8.29 million. The Council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise significant savings each year. There is regular review and challenge at a member and officer level and robust financial management arrangements in place. The Council has robust processes in place for monitoring and reporting the achievement of saving plans The medium-term position for the Council is more uncertain. There is no confirmed Government funding plan in place for 2020/21 and beyond due to the impact of Brexit and the impact of the business rate retention plan and the Fairer Funding Review. However, the Council's robust financial monitoring arrangements put it in good stead to deal with the challenges in the short to medium term. <p>Overall, the Council has appropriate arrangements in place for financial sustainability, However, we recognised the continued significant pressures the Council face going forward and importance of continued close in-year monitoring of budgets.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Children's Services	We considered the progress made since the publication of the Ofsted 'inadequate' rating by reviewing monitoring reports from Ofsted and through discussions with management	<ul style="list-style-type: none"> The 2018/19 year saw continued stability in the Children's Services senior leadership team within the Council following on from the permanent appointment of the Director of Children's services in March 2018. This has clearly supported the improvement trajectory which the Council has been on during 2018/19 and has provided the Council with a clear vision to take forward for Children's services. The Improvement plan is overseen by the Improvement Board comprising of the Leader of the Council, Chief Executive, partner agencies and key officers and is chaired by a Department of Education Improvement Advisor. In the latest monitoring letter, Ofsted comment on the senior leadership team's clear vision and coherent improvement plan to develop and deliver high quality services to children and families in Gloucestershire, which it is successfully implementing. However, Ofsted also comment that the Council is making slow progress in improving services for its children and young people with key areas such as being seen quickly, being kept safe and developing trusting relationships with social workings not good enough yet. Although this latest monitoring visit took place after the 2018/19 year and therefore is not taken into account in reaching our conclusion, it provides an indication of the arrangements in place towards the end of 2018/19 and the Council's direction of travel. No formal re-inspection has taken place and so the rating of 'inadequate' still applies. <p>We concluded that the Council did not manage this risk effectively and did not make appropriate use of performance and service quality information to support informed decision making and performance management.</p>

A. Fees – Council

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	June-July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June-July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000

Total Audit Fees	2017/18 Actual fee	2018/19 Proposed fee	2018/19 Updated fee
Council Audit	98,010	75,468	75,468
Additional Audit Fee (see above)	-	-	9,000
Interim Fee for work undertaken on the objection to date*	-	32,861	32,861
Total audit fees (excluding VAT)	£98,010	£108,329	£117,329

*Note £9k of the interim fee for work undertaken on the objection to date was accrued for in 2017/18 and £24k has been recognised in 2018/19. This explains the difference between the total external audit fee above and that disclosed in the financial statements.

Non Audit Fees

Fees	
Fees for other services	
Audit related services:	
• Certification of teachers' pension return	£4,200
• Independent reasonable assurance engagement - local transport plan major project claim	£4,200
Non-audit services	£10,000
• CFO Insights	
£18,400	

A. Audit Fees – Pension Fund

We confirm below our final proposed fees charged for the audit.

Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £18,325. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment. Note as these fees have not been finalised at this stage they are not included within the audit fee disclosure within the statement of accounts.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1500

Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
Pension Fund Audit	23,799	18,325	18,325
Additional Audit Fees (see above)			1,500
Total audit fees (excluding VAT)	23,799	18,325	19,825

A. Audit Related Services Fees – Pension Fund

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit. Note as these fees have not been finalised at this stage they are not included within the audit fee disclosure within the statement of accounts.

Audit related	£	Description
<p>IAS 19 assurance letters to other auditors In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of 8 other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations.</p>	£7,000	<p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>Historically the cost of this work has been absorbed within the audit fee of the administering and admitted bodies. Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Gloucestershire Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Gloucestershire Pension Fund.:</p> <ul style="list-style-type: none">• Gloucestershire County Council• Gloucestershire City Council• Stroud District Council• Tewkesbury Borough Council• Cheltenham Borough Council• Cotswold District Council• Forest of Dean District Council• Gloucestershire Constabulary <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>

A. Reports issued

We confirm below our final reports issued

Reports issued

Report	Date issued
Audit Plan (Council & Pension Fund)	January 2019
Audit Findings Report (Council & Pension Fund)	July 2019
Annual Audit Letter (Council & Pension Fund)	August 2019



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