

The Audit Findings for Gloucestershire Pension Fund

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

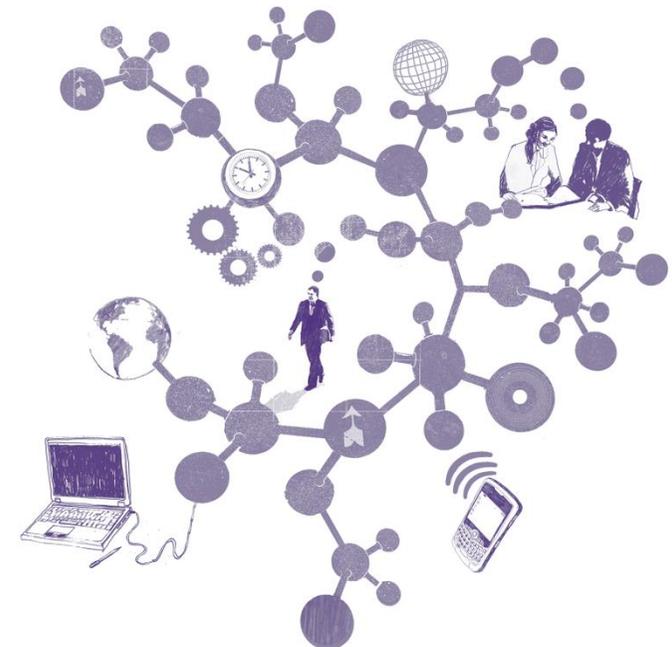
Year ended 31 March 2017

21 July 2017

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21 July 2017

Dear Members of the Audit and Governance Committee

Audit Findings for Gloucestershire Pension Fund 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 Gloucestershire Pension Fund, the Audit and Governance 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 officers.

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. 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

Elizabeth Cave
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Gloucestershire Pension Fund ('the Fund') and the preparation of the Fund'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 Fund's financial statements give a true and fair view of the financial position of the Fund.

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 7 April 2017.

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

- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We have not yet received the Pension Fund Annual Report and so have been unable to check the consistency of that report with the financial statements. This does not affect our ability to issue our opinion on the financial statements, although we will not be able to issue our certificate for the administering authority until this work has been completed.

Key audit and financial reporting issues

Financial statements opinion

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

We did not identify any material errors or other areas requiring amendment in the draft financial statements for the year ended 31 March 2017.

The supporting working papers were produced to a good standard and we received excellent cooperation from officers during our audit.

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 A).

Controls

Roles and responsibilities

The Fund'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 Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

Matters arising from the financial statements audit of the Fund have been discussed with the Strategic Finance Director and other members of 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
21 July 2017

Section 2: 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 £17.025m (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £20.00m on receipt of the financial statements (being 1% of net assets). The increase in materiality reflects the increase in the Fund's net assets.

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. In our plan we defined the amount below which misstatements would be clearly trivial to be £851k (5% of materiality). Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation and increased to £1.00m.

As we reported in our audit plan, we identified the following items where we decided that a separate materiality level was appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures	£300,000 (increased from £200,000 at planning stage)
Related party transactions	Due to the sensitive nature of related party transactions	£20,000 (unchanged from planning stage)

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 Gloucestershire Pension Fund, 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 Gloucestershire County Council as the administering body, 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>	<ul style="list-style-type: none"> • Review of entity controls, including IT. • Review of journal entry process and selection of large and unusual journal entries for testing back to supporting documentation • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified 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

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Level 3 Investments valuation is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> On a sample basis we have tested valuations by reviewing the most recent supporting information for individual investments. Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached. Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. 	<p>Our audit work has not identified any issues in respect of the valuation of these investments.</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
Investment income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. Completed a predictive analytical review for the investments held. 	Our audit work has not identified any significant issues in relation to the risks identified.
Investment purchases and sales	Investment activity not valid. Investment income not correct. (Accuracy)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. Tested a sample of individual transactions to supporting evidence 	<p>Our audit work has not identified any significant issues in relation to the risks identified.</p> <p>However, the Pension Fund includes all investments in the ledger at cost. It does not update the ledger entries to reflect any changes in market value, although the financial statements are prepared on the basis of the valuations at the year end. Gloucestershire Pension Fund maintains this information outside its main accounting system and therefore the financial statements do not mirror the ledger balances.</p>
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. Sought explanations for the large increase in level 2 investments since the previous year and agreed this to information provided by the custodian. For a sample of investments we agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert. 	Our audit work has not identified any significant issues in relation to the risks identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct. (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Controls testing over occurrence, completeness and accuracy of contributions. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risks identified.
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Controls testing over, completeness, accuracy and occurrence of benefit payments. • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risks identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member Data	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Controls testing over the member data held by the Pension Fund. • Tested a sample of starters, leavers and changes of circumstances to supporting documentation. 	Our audit work has not identified any significant issues in relation to the risks identified.

"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)

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 it is appropriate for the Pension Fund's financial statements to be prepared on a going concern basis.

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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Contributions are accounted for on an accruals basis, not simply when cash payments are made or received.</p> <p>The Fund account is prepared on a full accruals basis, with the exception of transfer values.</p>	<p>We have no issues to report over the:</p> <ul style="list-style-type: none"> • Appropriateness of the policy relating to contributions • Adequacy of disclosure of accounting policy. 	 (Green)
Judgements and estimates	<p>Management has disclosed its accounting policy and key estimates and judgements around:</p> <ul style="list-style-type: none"> – Asset Valuations (including Level 3 Investments) – Pension Fund Liability – Accruals 	<p>We have no issues to report over the:</p> <ul style="list-style-type: none"> • Appropriateness of the accounting policies disclosed • Adequacy of disclosure of accounting policy 	 (Green)
Going concern	<p>Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	 (Green)
Other accounting policies	<p>We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	 (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

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 Officers and the Audit and Governance Committee of Gloucestershire County Council. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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 Fund, which is included in the Audit and Governance Committee papers.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We sought management permission and obtained direct confirmations for pension fund cash balances.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2017 and this report has not yet been produced. We have not been able to give this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Internal controls

As noted earlier on page 5, our work has not identified any control weaknesses which we wish to highlight for your attention. No internal control issues were raised in the previous year.

"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)

Adjusted and unadjusted misstatements

No adjustments to the draft accounts were identified during the audit process.

There were no misclassification or disclosure changes identified during the audit.

There are no unadjusted misstatements.

Section 3: Fees, non-audit services and independence

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We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Pension fund audit	23,799	23,799
Total audit fees (excluding VAT)	£23,799	£23,799

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

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, 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 Fund and Gloucestershire County Council. No non-audit or audit related services were undertaken.

Section 4: 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 Fund'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 Fund's key risks when reaching our conclusions under the Code.

	Audit Plan	Audit Findings Report
Our communication plan		
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

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Recording of investments in the ledger In order to ensure the financial statements are in accordance with the Pension Fund's main accounting system, we recommend that investments on the ledger are updated to reflect the current values. Ideally these should be done each time management accounts are produced.</p>	Medium	<p>In the past SAP has only been updated to show realised gains and losses. This recommendation relates to SAP being updated to also show unrealised gains and losses. Now that the recommendation has been made the Fund will endeavour to update SAP during the closedown period in relation to the 2017/18 and subsequent years accounts, subject to the availability of the information from the Custodian within the closedown period.</p>	<p>By 31 May 2018 Head of Finance</p>

B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLOUCESTERSHIRE COUNTY COUNCIL PENSION FUND

We have audited the pension fund financial statements of Gloucestershire County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement 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 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 Strategic Finance Director and auditor

As explained more fully in the Statement of Responsibilities, the Strategic Finance Officer (Chief Financial Officer) is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 pension fund 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 pension fund 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Finance Director; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund 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 the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the fund year]; and
- the pension fund financial statements have been properly prepared 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 pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Elizabeth Cave for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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July 2017



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