Grant Thornton

Audit Findings

Year ending 31 March 2018

Gloucestershire County Council

18 July 2018

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Your key Grant Thornton team members are:

Peter Barber
Engagement Lead
T: 0117 305 7897
E: Peter.A.Barber@uk.gt.com

Katie Whybray
Audit Manager
T: 0117 305 7601
E: Katie.V.Whybray@uk.gt.com

Megan Gibson
In-Charge Auditor
T: 0117 305 7681
E: Megan.Gibson@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key issues arising from the statutory audit of Gloucestershire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	We commenced our post-statements onsite visit at the end of May and as at 18 July 2018 our audit is substantially complete. Our findings are summarised on pages 4 to 12. We have identified no material errors and no non trivial adjustments to the financial statements that have resulted in a adjustment to the year end outturn position or overall balance sheet. We have recommended a number of adjustments to improve the presentation of the financial statements. The draft financial statements were presented for audit in accordance with the earlier timetable of the end of May 2018. The accounts were supported by good quality working papers and we received prompt responses to our queries. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 27 July 2018, as detailed in Appendix D. These outstanding items are set out on slide 4. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	Due to the outstanding objection on the Council's energy from waste scheme, we are unable to conclude on the value for money arrangements in place at the Council. Slide 14 sets out more details regarding this position.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We do not expect to be able to certify the conclusion of the audit yet due to • outstanding 2016/17 objection relating to the energy from waste scheme which has yet to be concluded • whole of government Accounts review which will take place in August 2018.

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance (in the case of Gloucestershire County Council, the Audit and Governance Committee) to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 27 July 2018, as detailed in Appendix D. These outstanding items include:

- receipt of management representation letter
- review of the final set of financial statements
- finalising testing of journal posters
- finalising testing on financial instruments

Our approach to materiality

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

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	17.469 million	This equates to 2% of your gross expenditure for the year.
Performance materiality	13.101 million	This equates to 75% of Materiality.
Trivial matters	0.873 million	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Materiality for specific transactions, balances or disclosures	0.02 million	Senior officer remuneration and unusual related parties

Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	• the disclosures in the accounts are considered appropriate. • we have reviewed the Council’s budget forecast for the 3 year period to 31 March 2021, which exceeds 12 months from the date of signing (to 30 July 2019). • we have reviewed the Council’s financial plans for 2018/19 including the requirement to achieve savings and have reviewed the Cash Flow Forecast to 30 July 2019.
Work performed	**Auditor commentary**
Detail audit work performed on mgmts. assessment	• management set out their consideration of the appropriateness of the adoption of going concern assumption in their response to our ISA240 letter in the report to the Audit and Governance Committee in April 2018. In this report management confirm their view that the Council is a going concern. Subsequently the s151 Officer has also confirmed there are no material uncertainties that would require disclosure, under ISA 570. We concur with this view. • disclosures in the financial statements relating to material uncertainties are appropriate and sufficient.
Concluding comments	**Auditor commentary**
We are satisfied that the Going Concern basis is appropriate for the 2017/18 financial statements.	• our audit opinion will be unmodified in respect of Going Concern.

Significant audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Gloucestershire County Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Gloucestershire County Council.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions • review of significant related party transactions outside the normal course of business Our audit work so far has not identified any issues in respect of management override of controls. We are currently finalising our audit testing on journals.

Significant audit risks

Risks identified in our Audit Plan	Commentary
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a two year period. To ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of 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. Our audit testing on the valuation of property, plant and equipment did not identify any significant issues. We did, however, encounter issues in our testing of revaluations to ensure that they have been input correctly into the Council's asset register. This was due to a system limitation not allowing the Council to reproduce a report as at the 1 April 2017 when the revaluations were entered into the system. The extrapolated differences identified are below triviality, however we have made a recommendation for management regarding this to ensure the Council is able to maintain a robust audit trail which provides appropriate audit evidence for the revaluation movements.

Significant audit risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. Our audit testing on the valuation of the pension fund net liability did not identify any significant issues. The Council made an early payment of £10 million to the pension fund in 2017/18 for contributions due to 2018/19 and 2019/20. We have completed testing on this payment to ensure it is approximately accounted for in the financial statements and have not identified any issues. As the payment relates to a reduction of contribution in 2018/19 and 2018/20 there is no general fund impact in the 2017/18 accounts.

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
Employee remuneration Payroll expenditure represents a significant percentage (35%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and includes some schools payroll entries which are not administered by the Council there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** • Documented our understanding of processes and key controls over the transaction cycle • Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Agreed the year-end payroll reconciliation and ensured amount in accounts can be reconciled to the ledger and through to payroll reports. • Agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness. Our audit work has not identified any issues in respect of employee remuneration.
Operating expenses Non-pay expenses on other goods and services also represents a significant percentage (58%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have undertaken the following work in relation to this risk: • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • Documented the accruals process and the controls management have put in place. Challenged key underlying assumptions, the appropriateness of the source of data used and the basis for calculations. • Reviewed a sample of non-pay payments made post year end to ensure that they have been charged to the appropriate financial period. Our audit work has not identified any issues in respect of operating expenditure.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. • The policy in the final accounts covers all material revenue streams	• In the draft accounts presented for audit, the accounting policy on revenue recognition did not cover all streams of revenue • this accounting policy has been updated in the final accounts to include - revenue from the sale of goods - revenue from the provision of services - council tax and business rates income • grant income is disclosed within a separate accounting policy in the accounts • the updated accounting policy is deemed to be sufficient and covers all material sources of income.	Green
Judgements and estimates	• Key estimates and judgements include : – Revaluations – Impairments – Accruals – Valuation of pension fund net liability	Each of the key estimates and judgements have been considered within the significant risk and reasonably possible risk slides. No significant issues have been identified in respect to these.	Green
Other critical 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. We identified a number of policies which required updating or amending to ensure the policies were up to date and in line with the CIPFA Code of Practise. These have all been updated and the final set of accounting policies are deemed to be appropriate. We have recommended that the Council review their accounting policies on an annual basis as part of the closedown process.	Green

Assessment

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

Other communication requirements

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

Issue	Commentary
Matters in relation to fraud	• We discussed matters in relation to fraud in our communications with management and Those Charged with Governance. 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.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. • Include details of any identified or suspected non-compliance of laws and regulations and nature, timing and extent of related audit procedures performed.
Written representations	• A standard letter of representation has been requested from the Council which is included within the Audit and Governance Committee papers.
Confirmation requests from third parties	• We requested from management permission to send confirmation requests for banks, investments and loans. Of the requests sent, all but one received positive confirmation of the balances. For the one investment which we did not receive this for, we performed alternative procedures to gain assurance over the balance.
Disclosures	• A number of disclosure updates were made to the final set of accounts. These have been set out within Appendix B.
Significant difficulties	• We did not identify any significant difficulties in completing the audit of Gloucestershire County Council.

Other responsibilities under the Code

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

Issue	Commentary
Other information	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix D
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Work is not yet completed and the planned timescale for the work is for this to be completed in August 2018.
Certification of the closure of the audit	We do not expect to be able to certify the completion of the 2017/18 audit of Gloucestershire County Council in our auditor's report, as detailed in Appendix D due to the outstanding objection.

Value for Money

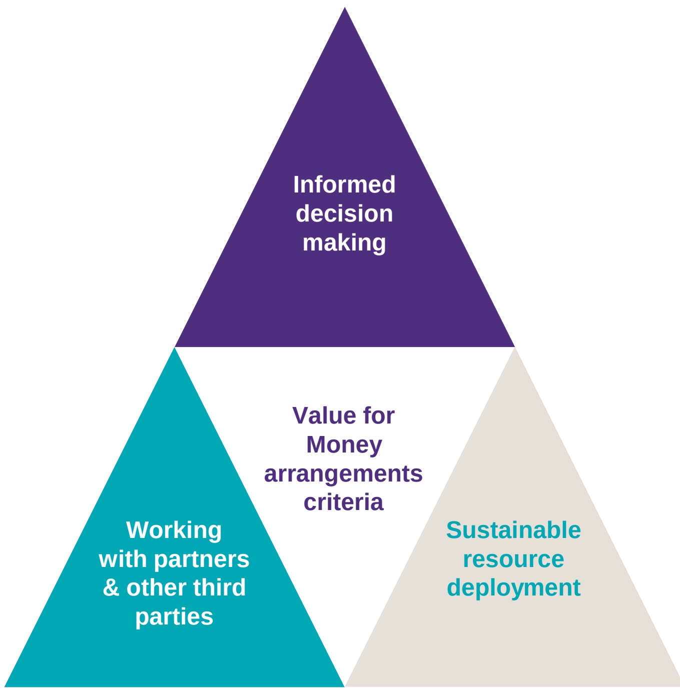
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our External Audit Plan dated February 2018.

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

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

Value for Money

Our work

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

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

- Understanding progress made since the publication of the Ofsted ‘inadequate rating by reviewing monitoring reports from Ofsted and through discussions with management
- the Council’s medium term financial plan and, in particular, the outturn for 2017/18 and the Councils ability to manage demand and financial pressures over the medium to long term.

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 15 to 17.

Overall conclusion

As noted earlier in this report, we are unable to issue our Value for Money conclusion until we have finalised a 2016/17 objection relating to the energy from waste scheme. We have also not concluded on the 2016/17 Value for Money conclusion for this same reason.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

Significant Risks identified in our plan	Commentary
Future Financial Sustainability We reported in our audit plan that the on-going challenge of meeting the savings outlined by Central Government continues to put pressures on Local Government finances. As at February 2018, the Medium Term Financial Plan (MTFS) identified that a further £29.26 million of efficiency savings were to be delivered in 2018-19. At the point of completing our initial risks assessment, the Children's and Families directorate were forecasting an overspend in 2017/18 with the budget under significant pressure. The outturn position for Children and Families was a £3.83 million overspend for 2016/17.	The Council set a net budget of £407.70 million for the 2017/18 financial year which was predicated on the delivery of £35.34 million of savings and included an increase in council tax of 3.99% for the year which included a 2% national adult social care levy. The final reported outturn position was an underspend of £8.04 million before adjustments for 2017/18. After adjustments (transfers to reserves and carry forwards of unspent budgets) the final outturn position was a small overspend of £0.033 million which was funded from general reserves. The council delivered £32.37m savings (92% of its target for the year). Of the required £35.34 million of savings, £23.56 million related to the meeting the challenge (MTC) saving plans of which 87.2% was achieved. The remaining £11.78 million savings related to reduction in one off 2016/17 budget increases, contract efficiencies and other transactional savings for which all savings were achieved. The Council continues to experience significant demand pressures particularly in Children and Families and Adult Services. These areas continue to be a focus for the Council. The childrens and families directorate reported a year end overspend of £6.37 million with continuing increase in demand for social care and actions required following the Ofsted Inspection placing further pressures on the children's and families budget. The cost of implementing the Improvement plan totalled £2.68 million in 2017/18 of which £1.47 million was funded from within the service area using one-off funding and £1.21 million funded from the transformation reserve. The Adults directorate reported an underspend of £2.63 million. Of this £0.71 million has been transferred into a new people services reserve given the volatility in demand for both Adults and Children social care. The technical and cross cutting budget recorded a year end position underspend of £6.36 million. This was due to a number of reasons including an additional £1.2 million from S31 grants, additional £2.4 million income due to positive interest rate credits on balances, unused contingencies and one-off underspends. 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 final accounts report a general fund balance of £18.5 million and non school related earmarked reserves of £119.32 million as at 31 March 2018. This represents a small reduction in the general fund reserves from the prior year due to Council approved revenue budget support of £1.295 million and an additional transfer of £0.033 million to fund the reported revenue outturn position. This is a healthy financial position and level of reserves are within the Councils recommended level of 4-6%. The graph on the following slide sets out the combined level of general fund and earmarked reserves (excluding school balances) for each of the 27 county councils in England. This indicates that Gloucestershire County Council has comparable levels of general fund and earmarked reserves to it peers.

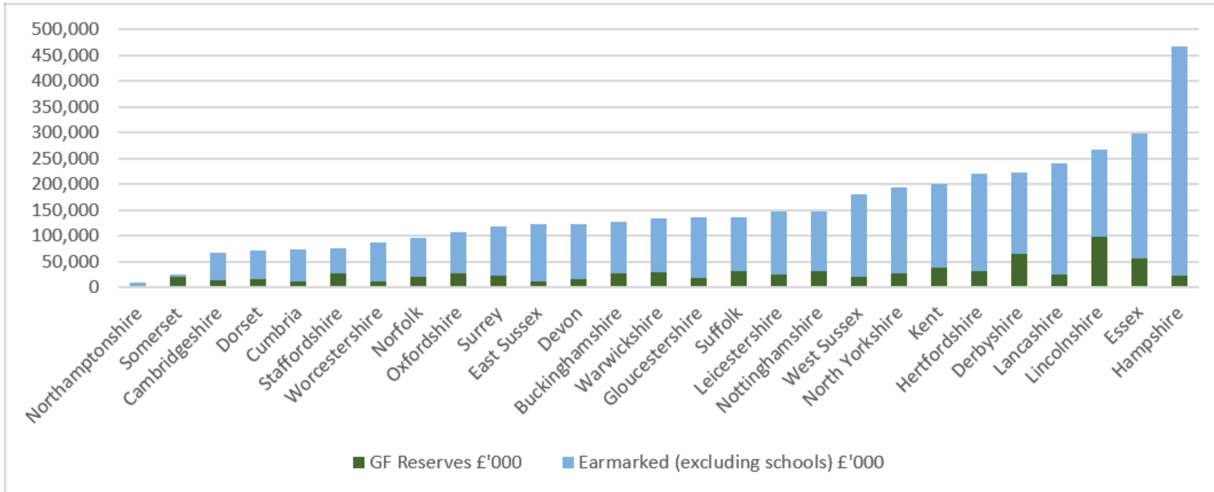
Key findings

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 Risks identified in our plan | **Commentary**

Future Financial Sustainability continued

Level of Reserves - Comparison across County Councils



At the February 2018 full council, a net revenue budget of £413.48 million was approved. An increase of 4.49% in Council Tax was approved including a 2% national adult social care levy.

The Council have another significant savings plan in place for 2018/19 totalling £29.26 million and the MTFS forecasts a further £16.81 million of savings being required in 2019/20 and £14.26 million in 2020/21. The Councils track record of effectively implementing and achieving significant savings will put them in good stead, however, we recognise that this will become more challenging for the Council going forward.

The assumptions included within the MTFS are deemed to be reasonable including a pay cap of 1% and adjustment for inflation where there is a contractual commitment.

Looking forward, the Council continue to invest within the children's and families directorate with the vulnerable children programme budget area seeing a year on year cash increase of £16.3 million, a 28.4% increase since the prior year.

Overall, the Council has appropriate arrangements in place for financial sustainability, However, we recognise the continued significant pressures the Council face going forward and importance of continued close in-year monitoring of budgets.

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 Risks identified in our plan	Commentary
Children's Services We reported in our audit plan that Ofsted's report, published on 13 June 2017, on its inspection of children's services in Gloucestershire, which took place between 27 February and 23 March 2017, concluded that the Council's overall arrangements were inadequate. It concluded: • the Council's arrangements for children who need help and protection are inadequate; • the Council's arrangements for children looked after and achieving permanence requires improvement; and • the Council's arrangements for leadership, management and governance of children's services are inadequate. The Council had produced an improvement plan, approved by Cabinet.	There has been regular reporting and monitoring throughout the year of the actions taken to improve the service following on from the inadequate rating from Ofsted given to the Council's children's services in June 2017. After a period of significant change and interim arrangements in the children's services directorate senior management team throughout the majority of 2017/18, a permanent director of children's services was appointed in March 2018. This was important as it now provides some stability at the top-level and should enable the Council to fully embrace the improvement journey with clear direction from the top. Ofsted undertook two monitoring visits within the 2017/18 year (September 2017 and January 2018) and have had a further monitoring visit in May 2018. In the latest monitoring letter, Ofsted comment that: • The local authority is making progress in improving services for children and young people. However too many children continue to experience drift and delay in the assessment, planning and provision of services to meet their needs • The director of children's services, together with the senior management team, is providing clear direction and embedding a programme for implement, which has resulted in some recent demonstrable improvements in practise • There continues to be significant financial investment and additional resourcing by the Council in children's services, and this investment is beginning to demonstrate improved service provision and outcomes for children. Although this latest monitoring visit took place after the 2017/18 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 2017/18 and the Council's positive direction of travel. No formal re-inspection has taken place and so the rating of 'inadequate' still applies. **We have 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.**

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Teachers' Pension return	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low (2016/17 fee: £4,200) in comparison to the total fee for the audit of £98,010 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Independent reasonable assurance engagement – local transport plan major project claim	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit of £98,010 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights subscription	£10,000	Self-Interest (because this is a recurring fee)	We have provided subscription services only; any decisions are made independently by the Council. The work is undertaken by a team independent to the audit team.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Action plan

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Low	PPE Revaluations We encountered issues in our testing of revaluations input into the Council's asset register. This was due to a system limitation not allowing the council to reproduce a report as at the 1 April 2017 when the revaluations were entered into the system. The extrapolated error is below triviality, however we have made a recommendation for management regarding this to ensure the Council is able to maintain a robust audit trail which provides appropriate audit evidence for the revaluation movements.	• The Council should ensure that report downloads and screenshots are taken when the asset register is updated for revaluations conducted as at 1 April. This will ensure that there is a robust audit trail maintained and easily accessible at year-end to support the valuation movements within the asset register. **Management response** Agreed. Screenshots were originally taken during Asset Accounting closedown, however when rerun due to an additional settlement one download was not run, and the system is not able to reproduced it at a certain point in time. Asset Accounting has been given a priority 1 in our SAP enhancement/review project.
● Low	PPE Revaluations In the draft accounts, the Council had not eliminated accumulated depreciation on items of property, plant and equipment which have been revalued.	• The council should ensure going forward that the treatment of accumulated deprecation on revalued assets is in line with the CIPFA Code of Practice requirements. **Management response** Agreed – the revaluation reserve will be adjusted for accumulated depreciation in future.
● Low	Accounting Policies We identified a number of policies which required updating or amending to ensure the policies were up to date and in line with the CIPFA Code of Practice.	• The council should review the accounting policies on an annual basis to ensure they are up to date and in line with the CIPFA Code of Practice requirements. **Management response** Agreed – all Accounting Policies will be reviewed annually.

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

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

Adjustment	Detail	Adjusted?
Non School Earmarked Reserves Cr £2.048 million Capital Reserves Dr £2.048 million	• A reserve was identified that was classified as a capital reserve however is intended to be used for revenue purposes and therefore should be classified as a revenue reserve.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements.

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Note 3 - Property, Plant and Equipment	• The draft statement of accounts did not include a prior period comparison note for property, plant and equipment. Accounting standards require comparative information to be disclosed in respect of the previous period for all notes in the financial statements.	✓
Note 3 – Property, Plant and Equipment	• An error was identified within the disposals and derecognition – disposals lines within note 3. - Total disposals understated £9.62 million - Total derecognition – disposals understated £9.62 million This is a disclosure error within the note and has no overall impact on the total net book value as at 31 March 2018.	✓
Note 3 – Property, Plant and Equipment	• The CIPFA code requires a table to be included within the statement of accounts which show the effective date of revaluations completed under a rolling programme. This was excluded from the draft accounts. The table has been added within the accounting policy.	✓
Note 4 – Expenditure and Funding Analysis	• The figure within the 'reported for resource management' column of the expenditure and funding analysis for Public Health did not agree to the Council's outturn report. The notes for both 2017/18 and 2016/17 have been amended to agree to the outturn report. 2017/18 Public health as reported for resource management understated £24.91 million Other income and expenditure as reported for resource management overstated £24.91 million 2016/17 Public health as reported for resource management understated £25.54m Other income and expenditure as reported for resource management overstated £25.54m	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Note 13 – Unusable Reserves	• Depreciation for assets that have been revalued in year was not shown separately within the Capital Adjustment Account. 2017/18 Revaluation losses on Property, plant and Equipment understated £38.85 million Charges for deprecation of non-current assets overstated £38.85 million 2016/17 Revaluation losses on Property, plant and Equipment understated £0.95 million Charges for deprecation of non-current assets overstated £0.95 million	✓
Cash Flow Statement **Note 14 – Cash Flow Statement – Operating Activities**	• Capital grants credited to surplus or deficit on the provision of services was overstated by £1.34 million within note 14 and contributions to/(from) provisions understated by £1.34 million. • The Cash Flow Statement was therefore incorrect as follows - Adjustments to net surplus or deficit on the provision of services for non-cash movements understated £1.34 million - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities overstated £1.34 million	✓
Note 32 – Defined Benefit Pension Schemes	• Three discrepancies were identified between the disclosures in the defined benefit pension scheme note and the actuary report. These were in the supporting notes and did not impact on the figures within the main statements.	✓
Note 34 – Nature and extent of risks arising from Financial Instruments	• The debt maturity table within note 34 disclosed incorrect figures for the following - between two and five years - between five and 10 years - between thirty and forty years - between forty and fifty years	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Accounting Policies	• A number of amendments were made to the Council's accounting policies to ensure they are up to date and in line with the CIPFA Code of Practice.	✓
Balance Sheet – Property, Plant and Equipment	• The CIPFA code requires a total for Property, Plant and Equipment to be disclosed on the face of the balance sheet.	✓
Movement in Reserves Statement	• The CIPFA code requires a total general reserves column (earmarked and non-earmarked) to be disclosed on the face of the movement in reserves statement.	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£98,010	£98.010
Total audit fees (excluding VAT)	**£98,010**	**£98,010**

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

Non Audit Fees

Fees for other services	Fees £'000
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	
• CFO Insights	£10,000
	£18,400

Draft Audit opinion

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

Independent auditor's report to the members of Gloucestershire County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gloucestershire County Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the accounts, including the statement of accounting policies, and include the fire pensions accounts comprising the Fund Account, the Net Assets Statement and notes to the accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;

have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Strategic Finance Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Strategic Finance Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Strategic Finance Director is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement adpdresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice
In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
Under the Code of Audit Practice we are required to report to you if:
we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Strategic Finance Director and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Finance Director. The Strategic Finance Director 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 2017/18, which give a true and fair view, and for such internal control as the Strategic Finance Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Finance Director is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - *Delay in certification of completion of the audit*
We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are unable to issue our conclusion until we have completed our consideration of matters that have been brought to our attention. We are satisfied that these matters do not have a material effect on the financial statements.

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

In addition, we cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until:

we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018.

we have completed our consideration of an objection brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014.

We are satisfied that these outstanding matters do not have a material effect on the financial statements.

Signature – To be added

Peter Barber
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf
Bristol
BS2 0EL

Date – To be added