The Annual Audit Letter for Gloucestershire County Council and Pension Fund

Year ended 31 March 2020

5 January 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Gloucestershire County Council (the Council) and the Pension Fund for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 30 October 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £14.6m, which is 1.5% of the Council's gross expenditure. We determined materiality for the audit of the Pension Fund's financial statements to be £22.4 million, which is 1% of the total net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 18 November 2020. We included a emphasis of matter paragraph in our auditors report in respect of the uncertainty over valuations of the Council's land and buildings and property investments within its share of the Pension Fund. We included a similar paragraph in our auditors report for the Pension Fund in respect of property investments, all due to the Covid-19 pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's and Pension Fund's financial position and the income and expenditure for the year.
Whole of Government Accounts (WGA)	As at 5 January 2021 our work on the Council's WGA submission had not been completed. System issues at HM Treasury have delayed the completion of our work on the Council's consolidation return.
Use of statutory powers	We have not exercised any of our additional statutory powers or duties. We are unable to certify the closure of the 2019/20 audit of Gloucestershire County Council until our work on the outstanding 2016/17 objection relating to the energy from waste scheme is concluded. We are keeping this under close review and aim to finalise our work in this area as soon as it is appropriate to do so. We also need to complete our work on the Council's WGA consolidation return for 2019/20 before we can issue our certificate.

Executive Summary

Value for Money arrangements	We have updated our Value for Money (VFM) risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to Covid-19. Due to the outstanding objection on the Council's energy from waste scheme discussed on the previous page, we are unable to conclude on the value for money arrangements in place at the Council. We have also not concluded on the 2016/17, 2017/18 and 2018/19 Value for Money arrangements for this same reason. We will finalise these once we have concluded our work on the objection. Our findings in respect of Future Financial Sustainability and Children's Services included within our audit plan are detailed on pages 16 to 19.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Gloucestershire County Council until our work on the outstanding 2016/17 objection relating to the energy from waste scheme is concluded. We also need to complete our work on the Council's WGA consolidation return for 2019/20 before we can issue our certificate.

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

Grant Thornton UK LLP
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £14.6m, which is 1.5% of the Council's gross expenditure. We used this benchmark as, in our view, the users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We determined materiality for the audit of the Pension Fund's financial statements to be £22.4 million, which is 1% of the total net assets. We used this benchmark as, in our view, the users of the Pension Fund's financial statements are most interested in where the Fund has invested the monies necessary to cover future pension obligations

We also set a lower level of specific materiality of £27k for senior officer remuneration at the Council.

We set a lower threshold of £729,000 for the Council and £1.1m for the Pension Fund above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and Pension Fund and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements (Council)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	We: • worked with management to understand the implications the response to the Covid-19 pandemic has on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	The Council responded well to the challenge of remote working and was able to produce draft financial statements on 1 August 2020. This was in accordance with the agreed timetable and was ahead of the national deadline (31 August 2020), although it was two months later than in the previous year. The Council identified a material uncertainty in relation to land and building valuations and disclosed this within its draft financial statements. The Council extended this disclosure to reflect similar material uncertainties to those with its directly owned land and buildings to the property investments held by Gloucestershire Pension Fund that are attributable to the County Council within its net liability related to the Defined Benefit Pension Scheme calculation. We referred to both of these material uncertainties in our audit opinion. The financial challenges into the medium term have also increased due to the lost income, additional costs and the uncertainty of future Government funding in respect of Covid-19.

Audit of the Financial Statements (Council)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycle includes fraudulent transactions (rebutted) 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.	Having considered the risk factors set out in ISA240 and the nature of the Council's revenue streams, we determined that the risk of fraud arising from revenue recognition could be rebutted because: • 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 mean that all forms of fraud are seen as unacceptable.	We did not consider this to be a significant risk for Gloucestershire County Council. We reconsidered this as part of our audit work on the financial statements and no new information came to light to change our original assessment.
Management over-ride 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work did not identify any significant issues with regards to management override of controls. We have previously reported that there is no preventative control in place around journals authorisation and journals can be posted and authorised by the same person. The Council introduced a retrospective review process for all significant journals that reflected both the role of the originator and the amounts involved. However, this had not operated as intended since the lockdown arrangements began in March 2020.

Audit of the Financial Statements (Council)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (Rolling revaluation) – including assets under PFI / PPP arrangements The Authority revalues its land and buildings on a rolling two-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £1 billion at 31.03.2020) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuers and the scope of their work; • evaluated the competence, capabilities and objectivity of the Council's valuation experts (both internal and external); • wrote to the valuers to confirm the basis on which the valuations were carried out; • engaged our own valuer to assess the instructions to the Council's internal and external valuers, the valuers' reports and the assumptions that underpinned the valuations and reviewed their feedback. • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding and reviewed the evidence underpinning a sample of revaluations; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated management's assumptions for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.	In line with guidance from the Royal Institute of Chartered Surveyors (RICs), the valuers employed by the Council included a material uncertainty in their final valuation reports. Officers reflected this disclosure in the Council's financial statements in the section 'assumptions made about the future and other major sources of estimation uncertainty'. We asked for the note on property, plant and equipment to refer to this additional disclosure given its significance. As highlighted previously in this letter, our audit opinion included an emphasis of matter paragraph to reflect the uncertainty surrounding land and building valuations at the year end. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.

Audit of the Financial Statements (Council)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £700 million in the Authority's balance sheet at 31.03.2020) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement.	We: • evaluated the design of the controls put in place by management to ensure that this liability is not materially misstated; • evaluated the instructions issued by management to their expert for this estimate and the scope of the actuary's w ork; • assessed the competence, capabilities and objectivity of the actuary w ho carried out the Authority's pension fund valuation; • tested the consistency of the pension fund asset and liability and disclosures in the financial statements w ith the actuary's report; • assessed the reasonableness of the actuarial assumptions made by review ing the report of our auditor's expert and performed the additional procedures suggested by them; • sought assurances from the auditor of the Gloucestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and • gained an understanding from the Actuary of the experience items follow ing the most recent triennial review .	The Pension Fund's financial statements disclosed a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Gloucestershire County Council, there is a similar material uncertainty associated w ith the Council's pension net liability and a new disclosure w as included w ith the Council's accounts. Our audit opinion referred to this disclosure as an 'emphasis of matter'.

Audit of the Financial Statements (Council)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Accounting treatment of the Energy from Waste PPP scheme The Energy from Waste PPP facility has become operational in 2019/20 and the Council will be required to determine the accounting treatment od this within the financial statements. This represents a significant and complex accounting transaction and therefore we deem this to represent a significant risk in 2019/20.	We: • obtained details of the scheme including the contract, operator's financial model and the Council's accounting model; • used our internal experts to review the above documentation to confirm the scheme is within the scope of IFRIC 12; • used our specialist team to review the Council's model by using a GT model and comparing any differences between the two; • agreed the balances and disclosures in the financial statements to the audited accounting model; • reviewed the disclosures relating to the scheme for compliance with the CIPFA Code.	Our work did not identify any issues in respect of the accounting treatment of the Energy from Waste PPP scheme.

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • remote working arrangements and redeployment of staff to critical front line duties may have impacted on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; • volatility of financial and property markets will have increased the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates; • for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions; • whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the Fund's ability to prepare the financial statements and assessed the implications on our materiality calculations and audit approach; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise; • evaluated the disclosures in the financial statements in light of the Covid-19 pandemic, including management's assessment of its impact on forecast cashflows; • evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely; • evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosure; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as Level 3 asset valuations; and • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years. As explained on page 3, the Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and we referred to this in our audit opinion as an 'emphasis of matter'. Our opinion was not qualified in this respect.

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there was a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption could be rebutted if the auditor concluded that there is no risk of material misstatement due to fraud relating to revenue recognition. • 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 Pension Fund, mean that all forms of fraud are seen as unacceptable We did not consider this to be a significant risk for Gloucestershire Pension Fund.	We reconsidered this as part of our audit work on the financial statements. We did not change our assessment and therefore do not consider this to be a significant risk for Gloucestershire Pension Fund.	Our audit work has not identified any issues in respect of improper revenue recognition.
Management override of controls Under ISA (UK) 240 there was a non-rebuttable presumed risk that the risk of management over-ride of controls was present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work did not identify any issues with regards to management override of controls. We have previously reported that there is no preventative control in place around journals authorisation and journals can be posted and authorised by the same person. The Pension Fund introduced a retrospective review process for all significant journals that reflected both the role of the originator and the amounts involved. However, this had not operated as intended since the lockdown arrangements began in March 2020.

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of Level 3 Investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represented a significant estimate by management in the financial statements due to the size of the numbers involved (£158 million at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. 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. Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • evaluated management's processes for valuing Level 3 investments; • 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; • independently requested year-end confirmations from investment managers; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period; • in the absence of available accounts, we evaluated the competence, capabilities and objectivity of the valuation expert; • tested revaluations made during the year to see if they had been input correctly; and • where available, reviewed investment manager service auditor reports on design effectiveness of internal controls.	The later closedown timetable for 2019/20 meant that management were often able to use actual valuations at the year end rather than rolling forward valuations from the previous December, as was previously the case. This reduced the level of estimation uncertainty. Our audit work did not identify any significant issues in relation to the valuation of Level 3 investments.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 18 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in August 2020 (July 2020 for the Pension Fund) in accordance with the agreed timescales, and provided a good quality working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audits.

Issues arising from the audit of the financial statements

We reported the key issues from our audits to the Council's Audit and Governance Committee on 30 October 2020.
No additional matters came to light between that Committee meeting and 18 November 2020 when we issued our opinion on the County Council's and Pension Fund's financial statements.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. The Council published the narrative report within the financial statements and the Annual Governance Statement alongside the financial statements on its website.

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

Whole of Government Accounts (WGA)

As at 17 December 2020 our work on the Council's consolidation return had not been completed. System issues at HM Treasury prevented the Council from making its updated submission and this impacted on the completion of our work.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Gloucestershire County Council until we resolve the outstanding 2016/17 objection relating to the energy from waste scheme.

We also need to complete our work on the Council's WGA consolidation return for 2019/20 before we can issue our certificate.

Value for Money conclusion (Council only)

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Council in October 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

As noted earlier in this report, we are unable to issue our Value for Money conclusion until we have determined a 2016/17 objection relating to the energy from waste scheme.

We have also not concluded on the 2016/17, 2017/18 and 2018/19 Value for Money conclusions due to this ongoing objection.

We will finalise our Value for Money Opinions for 2016/17 to 2019/20 once we have concluded our work on the objection.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
Future Financial Sustainability Like many other similar local authorities, the financial outlook remained challenging. At Month 6, the Council was forecasting a £5.1million overspend (1.2% of the budget). This position improved at Month 7 to a balanced budget position as a result of a review of revenue reserves and in-year efficiencies identified. The main area of pressure remained within the Children's & Families directorate. The Council has a significant savings target for 2019/2020 of £19.1 million and at the end of quarter 2, the Council were reporting delivery of £8.7 million against this.	**2019/20 Outturn** The Council set a net budget of £429.7 million for the 2019/20 financial year which was predicated on the delivery of £19.1 million of savings. The budget included the planned use of reserves of £2.2m. In response to previous year's pressures in its demand-led services, the 2019/20 budget included increased funding for both children's and adult's services which received a total of £13m of extra funding when compared with 2018/19. Whilst the final overall outturn was a £0.3m underspend, this masks a £13.8m (12%) overspend in the demand-led area of children and families despite the increased funding in year. This overspend was offset by additional funding received in year and not known at the budget setting stage as well as the increased use of reserves totalling £4.7m. The original savings target in the 2019/20 budget was £19.1m of which £14.5m (76%) was achieved. The biggest area of slippage was within children's and families with £1.3m of missed savings being due to a shortfall in the public health grant. Although savings elsewhere and measures set out above addressed the shortfall, continued efforts are required to ensure annual savings plans are realistic and achievable. Dedicated Schools Grant (DSG) continues to be an area for concern, with services funded from this grant recording a £5.9m in-year deficit, increasing the cumulative deficit position to £6.7m at year end.	See page 18.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
Future Financial Sustainability Like many other similar local authorities, the financial outlook remained challenging. At Month 6, the Council was forecasting a £5.1million overspend (1.2% of the budget). This position improved at Month 7 to a balanced budget position as a result of a review of revenue reserves and in-year efficiencies identified. The main area of pressure remained within the Children's & Families directorate. The Council has a significant savings target for 2019/2020 of £19.1 million and at the end of quarter 2, the Council were reporting delivery of £8.7 million against this.	**2020/21 Budget and monitoring** A net budget for 2020/21 totalling £468.2m was set in February 2020 and included a 3.99% increase in Council Tax, including a 2% adult social care levy. The budget process considered the amount of income the Council was likely to receive, as well as the pressures of both pay and contract inflation along with demand-led growth. The budget was predicated on a much smaller level of savings totalling £9.6m, approximately half the level required in 2019/20. The Covid-19 pandemic has meant officers have had to respond quickly to the impact that this has had on the finances of the Council. Although of limited impact for 2019/20 it was clear from the outset that this would have a major impact on 2020/21 and possibly future years as well. During the early stages of the pandemic officers were predicting the full year impact of Covid-19 to be a cost pressure of £11.6m for 2020/21 with the July report to Cabinet reporting a forecast overspend of £15.7m for the year. This has been refined as further announcements have been made by the government and more funding made available. The October 2020 monitoring report identified that the likely full year impact for the Council for 2020/21 will be £3.4m, which it is anticipated will be recovered from the Government's lost Sales, Fees and Charges reimbursement scheme. In addition, at the time our Audit Findings Report was written, the Council was forecasting an additional overspend of £6.5m, taking total forecast overspend for the year to £9.9m. This is despite an improved in-year position with savings delivery, with over 60% of savings achieved by the end of quarter 1. The Council has had a considered response to the pandemic and has waited for clarity on funding before taking informed decisions on how best to proceed.	See page 18.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
Future Financial Sustainability Like many other similar local authorities, the financial outlook remained challenging. At Month 6, the Council was forecasting a £5.1million overspend (1.2% of the budget). This position improved at Month 7 to a balanced budget position as a result of a review of revenue reserves and in-year efficiencies identified. The main area of pressure remained within the Children's & Families directorate. The Council has a significant savings target for 2019/2020 of £19.1 million and at the end of quarter 2, the Council were reporting delivery of £8.7 million against this.	**Medium Term Financial Strategy** The Council's medium term financial strategy (MTFS) for 2020/21 through to 2022/23 was published in February 2020 and included increased budgets for the final two years of £479.7m and £492.6m respectively., These increased budgets were predicated on £11.1m and £10.0m of savings respectively, and the MTFS makes allowances for pay inflation, cost pressures and other budget adjustments. Once again these savings are smaller than the challenging levels set for 2019/20. However, the ongoing uncertainty of Covid-19 means continued monitoring of the impact on the remainder of the MTFS remains key.	• While the Council faces a challenging financial position there remain appropriate arrangements in place for managing the budget. • Not all savings were delivered in 2019/20 and although the initial 2020/21 budget was predicated on a lower level of savings, Covid-19 has made reliable financial planning into the medium term more challenging. • General Fund balances and earmarked reserves remain adequate. • Continued close in-year monitoring and timely corrective action will be required to ensure budgets are delivered and service redesign with partners implemented.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
Children's Services Children's Services were assessed by Ofsted as inadequate at its most recent inspection in June 2017. While the Council had had various monitoring visits since the inadequate rating, they have yet to receive a formal re-inspection.	Since our last Audit Findings Report, issued in July 2019, Gloucestershire County Council has received reports based on two monitoring visits to Children's Services. These took place in September 2019 and February 2020. The visits were the seventh and eighth monitoring visits since the Council's Children's Services were judged inadequate in March 2017. The findings of the February 2020 visit were communicated to the Council on 12 March 2020. This report stated that "the senior leadership team demonstrates that it is determined to improve services for children". However, Ofsted noted that it had been two years since the previous inspection, which found services to be inadequate, and their view was that it was taking too long to address the critical weaknesses that were originally identified. Ofsted noted that, where changes have been made, they were very recent, and improved areas remained fragile. The report acknowledged that senior leaders and managers have recognised the need to re-focus their attention. Ofsted noted that senior leaders and managers have focused time and resources on creating a better environment, where children can receive an improved service, and with fewer changes of social workers. They have had some success in stabilising the workforce and in maintaining social work caseloads at a manageable level. However, the impact of this on social work practice and, ultimately, on the experiences of children in Gloucestershire, was not yet consistently evident.	The most recent published findings by Ofsted were based on a monitoring visit in February 2020. This, together with the previous monitoring report in September 2019, provides an overview of the majority of the financial year and so direction of travel. No formal re-inspection has taken place and so the rating of 'inadequate' still applies. We recognise that, since the findings of the visit in February 2020 were reported, Gloucestershire County Council has been working in incredibly challenging circumstances. Staff have been working remotely wherever possible and children were out of school for approximately six months. The additional social pressures associated with Covid-19, such as unemployment, financial challenges and increases in domestic abuse will only have added to the pressures on the service and made driving through change difficult. Given the ongoing concerns raised by Ofsted, we concluded that the Council did not manage this risk effectively and did not make appropriate use of performance and service quality information to support informed decision making and performance management. This is consistent with the conclusion reached in 2018/19.

A. Reports issued and fees – Gloucestershire County Council

Audit fees 2019/20	Proposed fee
County Council scale fee	75,468
Additional proposed audit fee at planning stage	18,350
Total proposed audit fees (excluding VAT) at planning	**£93,818**
Further additional fees proposed at completion	14,073
Total proposed audit fees (excluding VAT) on completion	**£107,891**

Reports issued

Report	Dated issued
Audit Plan	24 January 2020
Updated fees letter	27 February 2020
Audit Findings Report	22 October 2020
Annual Audit Letter	16 December 2020

The Gloucestershire County Council Audit Plan presented in January 2020 included £27,350 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. We subsequently wrote to the Executive Director of Corporate Resources on 27 February 2020 to indicate a reduction in this planned uplift of £9,000, reducing the increase to £18,350. This is reflected in the total proposed audit fees at planning above of £93,818.

Since the presentation of the audit plan and subsequent letter, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £14,073 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £107,893. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with Public Sector Audit Appointments Ltd (PSAA) over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees exclude any further work on the energy from waste objection and are subject to approval by PSAA in line with the Terms of Appointment.

Appendix A - Gloucestershire County Council Audit fee variations – Further analysis

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	75,468	
Pensions – valuation (IAS19)	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,350	We have engaged our own audit expert – Wilks Head and Eve LLP and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase includes the fee payable to the auditor's expert totalling £5000.
New accounting standards / developments	2,500	Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in. This increase costs also reflects the additional work resulting from the additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Energy from Waste accounting treatment	3,000	The Council's Energy from Waste PPP Scheme became operational in 2019/20 which represents a significant and complex accounting transaction within the 2019/20 financial statements and therefore was an area of focus for the audit. In the first year of a new scheme of the this nature, our work included a review of the model by our internal specialists as well as a review of the accounting treatment and the new balances and disclosures within the financial statements.
Revised planning fee	**93,818**	
Covid-19	14,073	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including managing around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	**107,891**	

A. Reports issued and fees – Gloucestershire Pension Fund

Audit fees 2019/20	Proposed fee
County Council scale fee	18,325
Additional proposed audit fee at planning stage	4,250
Total proposed audit fees (excluding VAT) at planning	**£22,575**
Further additional fees proposed at completion	6,000
Total proposed audit fees (excluding VAT) on completion	**£28,575**

Reports issued

Report	Dated issued
Audit Plan	24 January 2020
Audit Findings Report	22 October 2020

The Gloucestershire Pension Fund Audit Plan presented in January included £4,250 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19 and engaged our own auditors valuation expert to provide further assurance over your derivative disclosures. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £6,000 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £28,575. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Provision of IAS 19 Assurance Letters to other auditors	7,000	7,000
Total non- audit fees (excluding VAT)	**£7,000**	**£7,000**

Appendix A - Gloucestershire Pension Fund Audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	**18,325**	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised planning fee	**22,575**	
Auditor's expert - Valuation	2,000	As part of our audit work on investments we used, for the first time this year, our internal valuations team to provide assurance over the fair value of your derivatives.
Covid-19	4,000	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	**28,575**	

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