



The Annual Audit Letter for Forest of Dean District Council

Year ended 31 March 2019

8 October 2019



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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 Forest of Dean District Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 19 September 2019.

Our work

Respective responsibilities

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

- give an opinion on the Council'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.

Materiality	We determined materiality for the audit of the Council's financial statements to be £817,000 for the Council, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 26 September 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 19 September 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Forest of Dean District Council in accordance with the requirements of the Code of Audit Practice on 26 September 2019.

Executive Summary

Working with the Council

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Financial statements workshop - we invited members of your finance team to our workshop on current developments that impacted the 2018-19 financial statements
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

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

Grant Thornton UK LLP
October 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council'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 £817,000 for the Council, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower level of specific materiality for senior officer remuneration of £20k due to its sensitive nature.

We set a lower figure of £40,837 above which we reported errors to the Audit 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 financial statements, and the narrative report, and annual governance statement published alongside the financial statements, to check these are consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 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

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
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p>	<p>We performed the following work in respect of this risk:</p> <ul style="list-style-type: none">• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work• evaluated the competence, capabilities and objectivity of the valuation expert• communicated with the valuer to confirm the basis on which the valuations were carried out• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding• tested revaluations made during the year to ensure they have been input correctly into the Council's asset register• evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	<p>Our audit work did not identify any issues in respect of valuation of property, plant and equipment.</p>

Audit of the Financial Statements

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
<p>Valuation of investment properties The Council revalues its investment properties on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of investment property revaluations as a risk requiring special audit consideration.</p>	<p>We performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert communicated with the valuer to confirm the basis on which the valuations were carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to fair value. 	<p>Our audit work identified one issue in respect of valuation of investment properties.</p> <ul style="list-style-type: none"> We noted that management currently hold an Investment Property as an Asset under construction and have valued this in the accounts at historical cost, as the Council does not consider that it is able to reliably measure the fair value of the property as at 31 March 2019. The Council's valuer has concurred with this approach. This is in line with the Code. However, we noted that the valuer has indicated that the fair value upon completion is likely to be lower than historical cost, but they have not provided an estimate of the likely value due to the current stage of completion. The amount currently included within the accounts, of £620k, is not material. This valuation represents a significant estimate within the financial statements. We were satisfied that the Council's measurement of the property at historical cost is in line with the Code. We also identified that the valuer has revalued the land upon which the development is being constructed at £nil as at 31 March 2019. This represents a reduction in fair value of £163k during 2018/19. Revaluing the land to a nil balance because it is currently being developed is considered to be a cautious assumption and could result in an upward revaluation in future periods, once the development has been completed. We have challenged the Council on whether this approach is appropriate. However, as the estimate is not material in the context of the financial statements we reported this as a cautious accounting estimate rather than an error. <p>Our audit work did not identify any other issues in respect of valuation of investment properties.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • agreed the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data; and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>Our audit work did not identify any issues in respect of the Pension Fund net liability.</p> <p>The Council requested an estimate from its actuary of the potential impact of the 'McCloud' ruling and GMP equalisation changes. The actuary's estimate was of a possible increase in pension liabilities of £271,000. There was a further increase of £355,000 due to changes in financial assumptions; £626,000 in total.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal control</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>We performed the following work in respect of this risk:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals• analysed the journals listing and determine the criteria for selecting high risk unusual journals• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence• evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions.	<p>Our work has not identified any significant issues in respect of management override of controls to bring to your attention.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 26 September 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 19 September 2019.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council, following minor amendments which were rectified by management.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Forest of Dean District Council in accordance with the requirements of the Code of Audit Practice on 26 September 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in September 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

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 risk

Medium Term Financial Plan

In our audit plan dated January 2019, we highlighted the following risk.

The Council have been required to deliver substantial savings since 2010/11, and forecast continued significant savings requirements going forward. The current MTFS indicates that the Council proposes to fund a gap of £1.413m with £0.663m of savings plans and additional income, with the residual gap of £0.750m to be funded from the Future Deficits Reserve during 19/20.

Findings

- Our detailed review of the assumptions underpinning the MTFS concludes that they are satisfactory and reasonable.
- The Council has a strong track record of delivering balanced budgets and identifying required savings. Savings for 2018/19 have been achieved and the Council has delivered an underspend of £4k during the year against revised budget. This underspend has been transferred to the Future Deficit Earmarked Reserve, and will be used to support the future years' budget.
- Savings are built into base budgets, and are therefore monitored through the variances reported in quarterly revenue budget monitoring. The savings for 2019/20 have been identified and can be attributed to specific plans, such as the forecast Publica savings. The Council currently has a balanced budget to 2019/20 however there is a cumulative funding gap of £286k to 2022/23.
- Savings are monitored by Finance on a monthly basis. Any new capital scheme or projects with a financial implication have to be subject to a business case. Financial services will be involved in this process and have to sign off the financial business case, including the impact on the MTFS. Cabinet Members are involved on the project board, which is set up for all major schemes and are fully briefed and included in the project process, prior to a committee report being submitted for approval.
- We have considered the use of reserves in 2019/20 to deliver financial balance. The Council plan to use £750k of the Future Deficit Earmarked Reserve, in 2019/20. The level of reserves is sufficient to support the budget for 19/20 but beyond 2019/20 it will have to be replenished. We therefore note this as a recommendation within the AFR as the reserve will require replenishment by 2020/21 under current plans. We recommend that management continue to monitor the use of reserves when budget setting to ensure that into the medium term dependency on reserves is reduced.
- The Future Deficit Earmarked Reserve is part of the Council's medium term strategy and was set up in 2015 specifically for the purpose of supporting the budget. The use of this reserve has been appropriately considered by the Section 151 Officer and approved by Cabinet and Council.

We concluded that the risk was sufficiently mitigated and the Council has proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.

We made one recommendation in relation to the Council's use of reserves

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 risk	Findings
<p>Publica Group (Support) Ltd</p> <p>In our audit plan dated January 2019, we highlighted the following risk.</p> <p>Following a number of successful partnership and shared services arrangements between Cotswold, West Oxfordshire, Cheltenham and the Forest of Dean District Councils, Publica Group (Support) Ltd, a local authority owned company was created by the four councils and became operational in November 2017.</p> <p>The success of Publica is critical to the medium term financial strategy of the Council.</p>	<p>Background</p> <ul style="list-style-type: none"> • The company, Publica Group was registered in the latter part of 2016/17. Executive and Non-Executive Directors were appointed to the Board in March 2017, and the first monthly Publica Board meeting took place in April 2017. The majority of staff transferred to the Company on the 1st November 2017. • For three of the member councils, including Forest of Dean District Council, Publica directly manages public services. Publica provides reduced-scope services to Cheltenham Borough Council which include ICT, HR and finance functions. • The Council holds 25% of the voting rights of Publica, and service delivery is managed within the company in accordance with the service contracts agreed by the Council. <p>Contract monitoring processes in place to ensure performance and quality standards are delivered in line with the original Business Plan</p> <ul style="list-style-type: none"> • The company provides a mechanism to bring employees from across the partner Councils under a single employment arrangement. The company is independent of individual councils but accountable equally to all partners. As part of the establishment of Publica a number of items were identified as reserved matters for council approval to ensure that member councils retained an element of control over their company. The reserved matters were approved in October 2016 as part of the governance principles underpinning the establishment of Publica. • Frequent informal and formal reporting is provided by Publica to enable the Councils to monitor performance and quality standards (including, for example, standards around data protection). This also includes informal, regular meetings and correspondence with the s151 Officer at the Council; providing an additional platform for issues to be discussed. • Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Any underperformance issues would be addressed and challenged at these key meetings. • Reports provided by Publica also provide a review of outturn against budget which include savings to be achieved through Publica. Explanations are provided for significant under and over spends. The Council has also included a risk around Publica service delivery within their corporate risk register which is reported to Cabinet. <p>We concluded that the Council has appropriate arrangements in place to monitor Publica’s performance against quality standards in line with the original Business Plan.</p>

Significant risk**Findings****Publica Group (Support) Ltd
(cont.)****The arrangements in place at the Council to ensure Publica is delivering required financial savings while maintaining agreed service standards:**

- Publica's business plan includes a number of objectives, ambitions and key tasks against which their performance (and in particular, delivery of financial targets) can be measured and highlights the importance of providing robust data and performance metrics to the Councils' so that they can track their performance. The 2019/20 Business Plan was presented to Cabinet in March 2019.
- Cabinet and the Overview and Scrutiny Committee continue to receive quarterly performance and finance reports which provide members with an understanding of the performance and quality of services delivered. Reports also provide a review of outturn against budget which include savings to be achieved through Publica.
- The Q3 performance report identified that over 90% of KPIs are on or exceed target. The Plan notes that Publica delivered £0.48m of savings across the 2018/19 financial year for all four Councils in total and have a target of £0.93m for 2019/20. In addition to these business case savings, there are additional savings of £1.25m (again across all partners) for 2018/19. Publica are aiming to deliver a further £1.536m of savings across all four Councils for 2019/20. For the Council, savings plans are significant for 2019/20, with £0.3m attributable to shared service savings. We note that the Council has committed to provide six 10-week Publica internships per year, for two years, and a further three graduate trainee positions lasting two years each, at a cost of £210,000 in total across three of the four Councils (£70,000 per Council).
- Overall, this demonstrates the process by which the Council hold Publica to account through the Overview and Scrutiny Committee (which is responsible for monitoring performance, quality and improvement). Weekly meetings are held between officers of the Council and Publica, and briefings are provided to members on a regular basis.

We concluded that the Council has appropriate arrangements in place to ensure Publica is delivering required financial savings while maintaining agreed service standards.

Significant risk**Publica Group (Support) Ltd
(cont.)****Findings****The Council's Governance arrangements to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified:**

- We have considered the Governance arrangements of the Council over Publica, to provide appropriate oversight as one of the partnership organisations. In October 2016, the Council agreed the detailed governance principles applicable to Publica. These principles were incorporated within the Company's Articles and Association and the Members' Agreement, providing Councillors with rights to monitor the operational performance of the company.
- The 2019/20 Publica Business Plan was presented by the Publica Managing Director to Cabinet for consideration by members. This plan is based upon the principles and targets set out in business case which was approved by Council in 2016.
- Internally, the Council hold to account the managing director of Publica, and monitor the partnership through the Overview and Scrutiny Committee – this Committee is responsible for monitoring performance, quality and improvement. Weekly meetings are held between officers of the Council and Publica and briefings are provided to members.
- A Member Group comprised of the Chairmen of the Overview and Scrutiny Committees, representatives of the Cabinet and the Leaders of the Political Groups had been established to review the work of Publica, agreed as part of the year end performance meeting in May 2018. The Group is to meet on a quarterly basis during 2018/19. This Group represents a member platform for queries and discussions around Publica's performance and operations.
- In 2017/18 we raised a recommendation that arrangements for Council members to formally liaise and communicate with Publica should be agreed following the year anniversary of the operation of Publica. We understand that the first meeting has taken place in June 2019.
- We noted that the Council has made progress in terms of the formal liaison and communication arrangements in place. We recommend that the progress of these arrangements should be monitored, and in this way the Council can continue to develop clarity on respective roles and responsibilities, and continue to strengthen the communication process with Publica Group (Support) Ltd officers.

We concluded that the Council has appropriate arrangements in place to provide appropriate oversight as one of the partnering organisations, including how members of the Council are kept informed of any issues and the outcomes of remedial action required to address any issues identified.

We recommended that the Council continue to develop clarity on respective roles and responsibilities and continue to strengthen the communication process with Publica Group (Support) Ltd Officers.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	September 2019
Annual Audit Letter	October 2019

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	46,913	36,123	36,123
Additional Audit Fee *	4,539	-	4,500
Total audit fees (excl VAT)	51,452	36,123	40,623

* Additional audit fees are subject to confirmation by PSAA.

Fees for other services

Fees £

Audit related services:

- Certification of Housing Benefit (estimate) £21,635

Non-audit services:

£3,750

- CFO Insights

Total fees for other services

£25,385

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor

A. Reports issued and fees

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £36,123 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed significantly, which has led to additional work. These are set out in the following table and were discussed at the Audit Committee on 19 September 2019.

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	July – September 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500
Pensions – IAS 19	July – September 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	1,500
PPE Valuation – work of experts	July – September 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

Fee variations are subject to PSAA approval.



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