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Report to those charged with governance (ISA 260) 2013/14

Gloucester City Council

September 2014

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Gloucester City Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.

We previously reported on our work on the first two stages in our *Interim Audit Report 2013/14* issued in June 2014.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2014.

It also includes any additional findings in respect of our control evaluation which we have identified since we issued our *Interim Audit Report 2013/14*.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work and we included early findings in our *Interim Audit Report 2013/14*. We have now completed the work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments and recommendations	We identified two corrected and one uncorrected significant audit adjustments which are reclassifications on the balance sheet and have no impact upon the General Fund. These are presented within Appendix 3 and 4. In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. The Authority has addressed these where significant. The Authority has not addressed rounding differences within the accounts. We have raised three recommendations which are summarised in Appendix 1. They are to recommend that the Authority performs bank reconciliations after all relevant journals have been posted and that the Authority should not depreciate land. The Authority has implemented three of the four recommendations in our *ISA 260 Report 2012/13* relating to the financial statements. The outstanding recommendation relating to the historic cost depreciation adjustment is reiterated in Appendix 2.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority has addressed these issues appropriately.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers this year. The draft version of the accounts provided to us met the 30 June deadline. This version had been reviewed by senior management to ensure the quality of the draft. The version has also required little in the way of revision following KPMG review with the majority of our comments being minor. Improvements have also been made to ensure notes are internally consistent within the statements provided. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

Headlines *(continued)*

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete. The only information that is outstanding relates to: ■ Gloucestershire Pension Fund controls report due from Grant Thornton. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.
WGA	We have reviewed the consolidation pack which the Authority prepared to support the production of the Whole of Government Accounts by HM Treasury. We report that the Authority's pack is consistent with the audited financial statements.

Proposed opinion and audit differences

Our audit has identified a total of three significant audit adjustments.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We identified two corrected significant audit adjustments which are reclassifications on the balance sheet and have no impact upon the General Fund. They are as follows:

- £478k of PPE additions to investment property additions; and
- £377k Group accounts consolidation correcting journal to increase both income and expenditure.

We identified one uncorrected significant audit adjustment which is a reclassification on the balance sheet and has no impact upon the General Fund. It is as follows:

- £433k NNDR appeals from creditors to provisions.

The above adjustment has not been corrected by officers.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. The Authority has addressed these where significant. The However, the Authority has not addressed some identified rounding differences within the accounts.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content. Our significant comments were that the Annual Governance Statement should include:

- narrative on contract management where internal audit provided limited assurance following their review and raised a large number of recommendations; and
- that the Authority has operated with only one Corporate Director for a period of time.

The Authority has amended the AGS accordingly.

Section three

Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in March, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

In response to this risk, we performed controls testing and substantive audit procedures which included testing of journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise. We did not identify any issues from our work.

Key audit risk	Issue	Findings
Closedown and accounts preparation	The Authority has made good progress in the last two years to improve the quality of accounts presented for audit, but there has historically been a large number of adjustments made between the draft and final versions of the accounts and there remains a need to demonstrate significant improvement in these arrangements. The Authority needs to continue this direction of travel and ensure it produces a good quality set of draft financial statements for audit.	The Authority has continued in making improvements in the closedown and accounts preparation process and we have noted an improvement in the quality of the accounts and the supporting working papers this year. The draft version of the accounts provided to us met the 30 June deadline. This version has not been substantially revised by the Authority, as was necessary in previous years due, to internal senior management reviews to ensure the quality of the first draft. During our audit we have identified three significant audit adjustments, all of which are reclassifications on the balance sheet between already recognised balances which have no impact upon the General Fund. A small number of presentational errors have been noted during the audit. None are individually significant but the Authority should aim to eliminate these as the next stage of improving the financial statements process.

Key financial statements audit risks (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
LGPS Triennial Valuation	During the year, the Gloucestershire County Council Pension Fund has undergone a triennial valuation. The pension cost and net liability figures for the Authority to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.	We have undertaken detailed testing to ensure that the Authority has correctly accounted for the results of the triennial valuation. We have also confirmed that appropriate processes and controls have been implemented to ensure that data provided for the purposes of the valuation is accurate and complete. In order to provide the actuarial valuation, Hymans Robertson made a series of assumptions in relation to factors such as discount rates, salary inflation and mortality figures. We have benchmarked these assumptions against our expectations and found no significant issues.

Key financial statements audit risks (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
Fixed asset register	Recent audits have highlighted weaknesses in the accounting for fixed assets and there is therefore a risk around the completeness and accuracy of data.	In 2013/14 we have audited a sample of additions, revaluations and transfers. The Authority performed the annual revaluation of its Investment Properties at the year end as required by the Local Government Code. We have performed detailed testing on the assets which has been revalued during the year, agreeing a sample of these assets to underlying records and the valuation report. We have held a number of meetings with officers to ensure that where no revaluation took place that officers were satisfied with the carrying value of the assets held within PPE. We did not identify any issues from our work. From auditing the fixed asset register we identified two recommendations on depreciation of land (which should not occur) and historic cost depreciation transfers which are detailed in Appendix 2. We also identified one audit adjustment for £478k of assets recognised as PPE additions rather than investment property additions. We note that the fixed asset excel spreadsheet has been used for the 2013/14 year end due to a delay in the implementation of the Cedar asset management software. We understand from Officers that the Cedar asset management system is now live and we will review the register as part of our 2014/15 audit.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers this year.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented three of the four recommendations in our *ISA 260 Report 2012/13.*

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened its financial reporting process through self review of the accounts and checks of internal consistency of the accounts. We consider that accounting practices are generally appropriate. However, the Authority does not make an historic cost depreciation adjustment in the accounts. This is an issue we have raised in previous years. This year there has been a change in accounting for defined benefit pensions schemes per the Local Government Code. The Authority may restate the prior year for the impact of this if material. The Authority has decided to restate the comparative year by £413k. We believe that the restatement is not required as this amount is not material enough to justify a restatement. However, we do not view the inclusion of the restatement as an audit misstatement.

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts by the 30 June deadline. We have noted an improvement in the quality of the accounts, with the draft version provided to us not requiring substantial revision by the Authority as in previous years.
Response to audit queries	Officers resolved our audit queries in a reasonable time.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 10 March 2014 and discussed with Head of Financial Services, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol* and marks an improvement from prior years.
Group audit	To gain assurance over the Authority's group accounts, we have performed specific audit procedures for both Gloucester City Homes Ltd and Gloucestershire Airport Ltd. There are no specific matters which we need to bring to your attention.

Accounts production and audit process *(continued)*

We have noted an improvement in the quality of the accounts and the supporting working papers this year.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented three of the four recommendations in our *ISA 260 Report 2012/13.*

Additional findings in respect of the control environment for key financial systems

We have substantively tested the year end bank reconciliations prepared by the Authority. The first reconciliation provided to us did not reconcile the bank statements to the reported balances in the trial balance and financial statements. Therefore, a recommendation has been raised in Appendix 1.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented three of the four recommendations in our *ISA 260 Report 2012/13*. The Authority has not implemented the posting of a historic depreciation transfer journal.

Appendix 2 provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Gloucester City Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Gloucester City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Financial Services for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

We have just one matter to note. As part of the Local Government Finance Act 2012, the Government implemented a Business Rate Retention Scheme from April 2013, whereby Non Domestic Rates (NDR) are collected and distributed locally via the Collection Fund (this has previously been distributed nationally).

We have noted that this year the Authority has reported a deficit on the NDR element of the Collection Fund of £0.375 million . This has contributed to an overall deficit on the Collection Fund of £0.587 million.

The Authority submitted its NNDR 1 form at the start of the financial year which stated the forecasted business rate income for the year. This is based on a complex formula and a number assumptions were made by the Authority. This was due to very little guidance being issued by the DCLG in this area. During the year, the Authority made payments to/from the Collection Fund based on the forecasted income. After the year end, the Authority is required to submit a NNDR 3 which shows the final outturn position. Due to the number of assumptions that were made at the start of the year this has left the NDR balance in deficit.

The Authority has an obligation to make up the deficit but this is borne by the Collection Fund and distributed to preceptors in future years through the declaration of a surplus or deficit on the fund.

The Authority has confirmed that a more robust process for 2014/15 has been implemented.

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

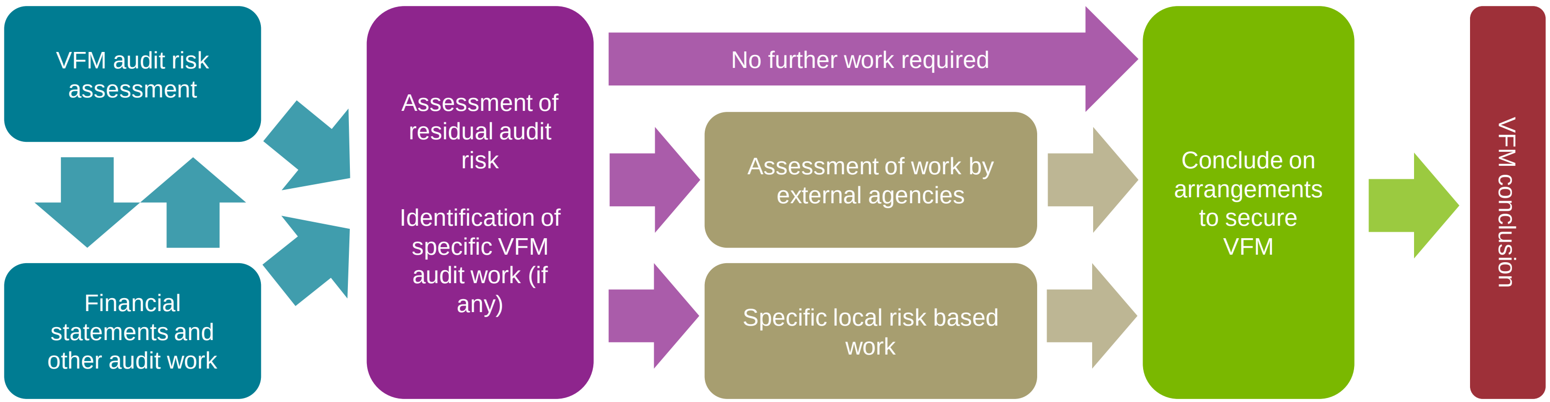
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following pages include further details of our VFM risk assessment and our specific risk-based work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Section four

Specific VFM risks

We have identified a number of specific VFM risks.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

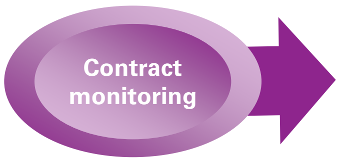
In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	The Council has a number of contracts with third parties to provide services, such as neighbourhood services and IT. An Internal Audit review in 2012/13 identified that the Council had overpaid on one of its contracts. There is a risk that the Council is not carrying out effective contract monitoring to ensure that it pays the correct amount for services provided and that it obtains value for money from its contractors. This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.	Internal audit have performed two contract monitoring audits at the Authority providing limited assurance and raising a large number of recommendations. We understand that the Authority has implemented an action plan to address the recommendations raised and that the Authority is making progress against the plan. The Authority has also pursued an overpayment identified within a contract with a waste management provider ensuring the Authority received reimbursement and protecting the economy of the contract. The Authority has carried out effective reviews of contract monitoring and has detailed plans in place to address shortcomings and instances of contract discrepancies. We have found that contract monitoring risks are being appropriately addressed.

Specific VFM risks (continued)

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Savings plans	The savings plan target for the Authority for 2013/14 is £1.9m. This was built into the budget agreed by the Authority and Cabinet at the start of the year. There is a risk that savings plans are not being monitored and that the Authority does not make the required savings in order to meet its budget. This is relevant to the financial resilience criteria of the VFM conclusion.	The Authority achieved a deficit of £296k in the year which shows final net spending was close to budget at 1.8% of the total budget for 2013/14. The savings plan target for the Authority for 2013/14 was £1.9m. This was built into the budget agreed by the Authority and Cabinet at the start of the year. The savings plan is monitored as part of the budgetary monitoring that has been implemented during the year, explained within the box below. The Authority has reviewed the savings planned against actual spending in year to identify areas of achievement and weakness within the savings plan. We have found that the monitoring of the savings plan is appropriate.
Budgetary control	The Authority took steps last year to address weaknesses relating to its budgetary control arrangements. This process has continued during the year. Robust budgetary control and monitoring is key to delivering value for money, so we will follow up the recommendations made in our 2012/13 *Report to Those Charged with Governance (ISA 260 Report).* This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.	The Authority has implemented a new budgeting process in January 2014 to support previous budget monitoring. Management accounts prepared by Finance now provide variance analysis to budgets by subjective areas and are presented to Cabinet and Audit Committee. Meeting are also held between Finance staff and budget holders to discuss individual budgets and ensure accountability and understanding of variances. We have reviewed the newly implemented monitoring to ensure it is monitoring spending at an appropriate level. We have found the monitoring to be appropriate.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ *Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ *Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ *Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Bank account reconciliation** The year end bank reconciliations did not reconcile the bank statements to the trial balance or draft financial statements. At the year end the reconciliations were performed by Finance before all year end cash journals had been posted. The reconciliations were not re-performed once all journals were posted and the differences were not identified by senior management review. As a result of this we reviewed the May and June 2014 bank reconciliations and confirm that the control was now operating effectively. **Recommendation** Bank reconciliations should be performed subsequent to the posting of cash journals. Reviews should also be put in place to ensure that reconciliations performed reconcile to reported balances.	Bank reconciliations were completed reconciling the year end trial balance to bank statements; subsequent cash journals posted resulted in timing differences. New reconciliation procedures introduced address the identified issue as noted in the subsequent Auditor review of bank reconciliations completed for May and June 2014. Financial Accountant – Implemented Q1 2014/15.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	**Consideration of the value of assets not subject to a formal valuation in the year** Accounting standards require that assets must be revalued end of the reporting period. Finance staff held discussions with the Authority's in-house valuer at year end and concluded that any difference between fair value and carrying value would not be material, but there is only very limited documentary support of these discussions and, importantly, no quantified analysis to demonstrate the conclusion reached **Recommendation** The Authority should conduct valuations in line with the CIPFA technical alert on the frequency of PPE valuations. The frequency and approach to revaluations should also be kept under review to enable the Authority to respond should there be indications of a possible material difference between current value and fair value.	The Council's policy is to value 2 categories of Assets each year, one of which is investment properties. The second category is selected in rotation from the remaining 3 categories so the Authority revalues all assets within a 3 year cycle. The Authority valued PPE in the 2013 revaluation but accept as the cycle progresses there is a need to demonstrate that there is no material difference between fair and carrying value. This matter was considered and the view is that the market had not significantly altered since the previous valuation Responsible Officer : Asset Manager
3	3	**Depreciation of land assets** During our audit of the fixed asset register we identified that depreciation has been charged against three land assets in 2013/14 with a value of £3,300. Even though the balance is clearly small the Local Government Code of Practice states that depreciation should not be charged against land assets. Whilst the charge is immaterial in 2013/14 the cumulative impact of annual depreciation could be become material. **Recommendation** Review all land assets to ensure no depreciation is charged in future years.	Implementation of new fixed asset register will ensure depreciation is not charged against land assets. Financial Accountant – Implemented Q1 2014/15.

Appendix 2: Follow up of prior year recommendations

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2012/13.*

We re-iterate the importance of the outstanding recommendation but note that the Council is part way through the process of addressing the recommendation.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	4
Implemented in year or superseded	3
Remain outstanding (re-iterated below)	1

No.	Risk	Prior year issue and recommendation	Status as at September 2014
1	2	**Historic cost depreciation adjustment** As in previous years, the Authority has not made a historic cost depreciation adjustment in 2012/13. The Authority has identified that there are excess balances on the revaluation reserve where the net book value of the asset is nil. These are now being written off to the Capital Adjustment Account but are the result of not making historic cost depreciation adjustments in previous years. **Recommendation** Make an adjustment each year between the Revaluation Reserve and the Capital Adjustment Account to ensure that, where assets are fully written down, there is no residual balance in the Revaluation Reserve. **Management response 2012/13**	Implementation of new fixed asset register will provide additional information to analyse the revaluation reserve. Financial Accountant – Implemented Q1 2014/15.

Appendix 3: Corrected audit differences

This appendix sets out the audit differences.

It is our understanding that these will not be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

There are two corrected audit differences to report.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Dr Consolidated HRA expenditure £377k Cr Consolidated HRA income £377k	-	-	-	-	An intercompany consolidation journal between Gloucester City Council and Gloucester City Homes was incorrectly posted to eliminate income when the original transaction was recorded in expenses.
2	-		Dr PPE transfers £478k Cr PPE additions £478k Dr Investment property additions £478k Cr Investment property transfer £478k	-		£478k of additions recognised within Other Land and Building were subsequently transferred to Investment Properties during the year. These assets should have been initially recognised as investment properties. Additions.
	No net impact	**No net impact**	**No net impact**	**No net impact**	**No net impact**	**Total impact of uncorrected audit differences**

Appendix 4: Uncorrected audit differences

This appendix sets out the audit differences.

It is our understanding that these will not be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

The following table sets out the uncorrected audit difference identified by our audit of Gloucester City Council's financial statements for the year ended 31 March 2014.

	Impact					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	-	-	-	Dr Creditors £433k Cr Provisions £433k	-	£433k is recognised for non-domestic rate appeals as a creditor within the financial statements. Due to the timing of the liability being uncertain the balance should be recognised as a provision.

Appendix 5: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Gloucester City Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Gloucester City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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