



# Annual Audit Letter 2016/17

## Gloucester City Council

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September 2017

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.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.

We are committed to providing you with a high quality service. 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 engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers ([andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

The contacts at KPMG in connection with this report are:

### **Darren Gilbert**

*Director*

Audit

Tel: +44 29 2046 8205

[darren.gilbert@kpmg.co.uk](mailto:darren.gilbert@kpmg.co.uk)

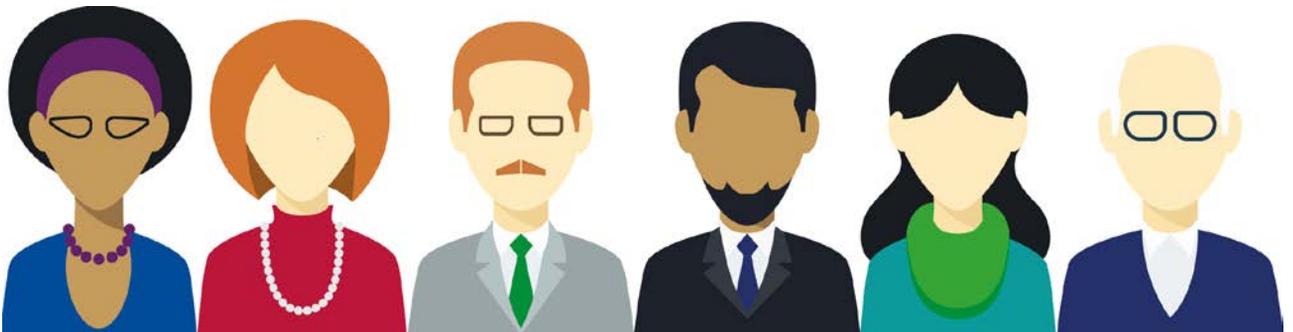
### **Matthew Arthur**

*Senior Manager*

Audit

Tel: +44 29 2046 8006

[matthew.arthur@kpmg.co.uk](mailto:matthew.arthur@kpmg.co.uk)



## Section one

# Summary

This Annual Audit Letter summarises the outcome from our audit work at Gloucester City Council in relation to the 2016/17 audit year. Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.



### VFM conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 18 September 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

### VFM risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- **Achievement of the savings plan** - Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Council's money plan reports a balanced budget for 2017/18 but with increasingly difficult financial challenges over the next four years. Based on our review of the plans in place and understanding of the actions being taken, there are no factors impacting adversely on our VFM conclusion.
- **Together Gloucester** - We reviewed the approach followed by the Authority in considering restructuring options and providing information to members in order to allow informed decision making. Our work found the governance processes to be reasonable and the information provided to members to be sufficiently detailed to allow informed decision making.
- **Adequacy of contracts monitoring** - We reviewed progress against the Streetcare action plan to consider the significance of the identified issues and the steps being taken to address them. We also considered the Council's other major outsourced contracts to understand the level of contract monitoring. Overall, whilst recognising the need for some improvement in relation to the Streetcare contract, we consider the Council's contract monitoring to be sufficient to meet the VFM criteria.
- **Performance management reporting** - We have considered the Council's progress on implementing a new performance management approach with officers and evidence of alternative arrangements while the plan is in development. The Council has delayed the implementation of a revised performance management system to be reported to members due to changes to the operating and management structure of the Council. Our review found that there is a level of performance management being performed and it is clear the Council is taking appropriate measures to implement an improved new system. We recommended that this new system is implemented as a matter of urgency now that the new Council structure is finalised, so that members are clearly and regularly informed about the Council's non-financial performance levels.

## Section one

### Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 18 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Authority's Group, which consists of the Authority itself and its joint venture, Gloucestershire Airport.

### Financial statements audit

Our audit approach included one audit significant risk area related to the pensions triennial valuation and three areas of focus (the new Expenditure and Funding Analysis (EFA) disclosure statement, fair value of property and accounting for the restructuring programme). No significant issues were identified in this testing, other than one audit difference as below.

One uncorrected audit difference was raised as no restructuring provision had been recognised for the Together Gloucester project. As the formal plan consultation had been announced to all staff prior to the balance sheet date, which raised an valid expectation in them that the Council would carry the plan out, we considered that the requirement to recognize a restructuring provision under IAS 37 had been met. The value of this adjustment (£833k) fell below our materiality threshold and so was not adjusted in the final accounts.

The Authority has strengthened its financial reporting by finalising the accounts in a slightly shorter timescale despite its financial system migration exercise and restructuring exercise in the final quarter increasing pressures on finance staff. This puts the Authority in a good position to meet the earlier 2017/18 deadline. Nonetheless, there is scope to improve the process, in particular in relation to dealing with outstanding audit evidence and accounts changes after the audit evidence, as the deadlines next year will be significantly tighter.

The Authority has recognised the additional pressures which the earlier closedown will bring, and we are making arrangements to debrief the 2016/17 and commence planning of the 2017/18 closedown process together.

### Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

### Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

### High priority recommendations

We raised one high priority recommendation as a result of our 2016/17 audit work. This relates to the implementation of the new performance management system and is detailed in Appendix 1 together with the action plan agreed by management.

### Certificate

We issued our certificate on 18 September 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

### Audit fee

Our final fee for the 2016/17 audit was £70,491. This compares to a planned fee of £63,450.

Further detail is contained in Appendix 3.

# Key issues and recommendations

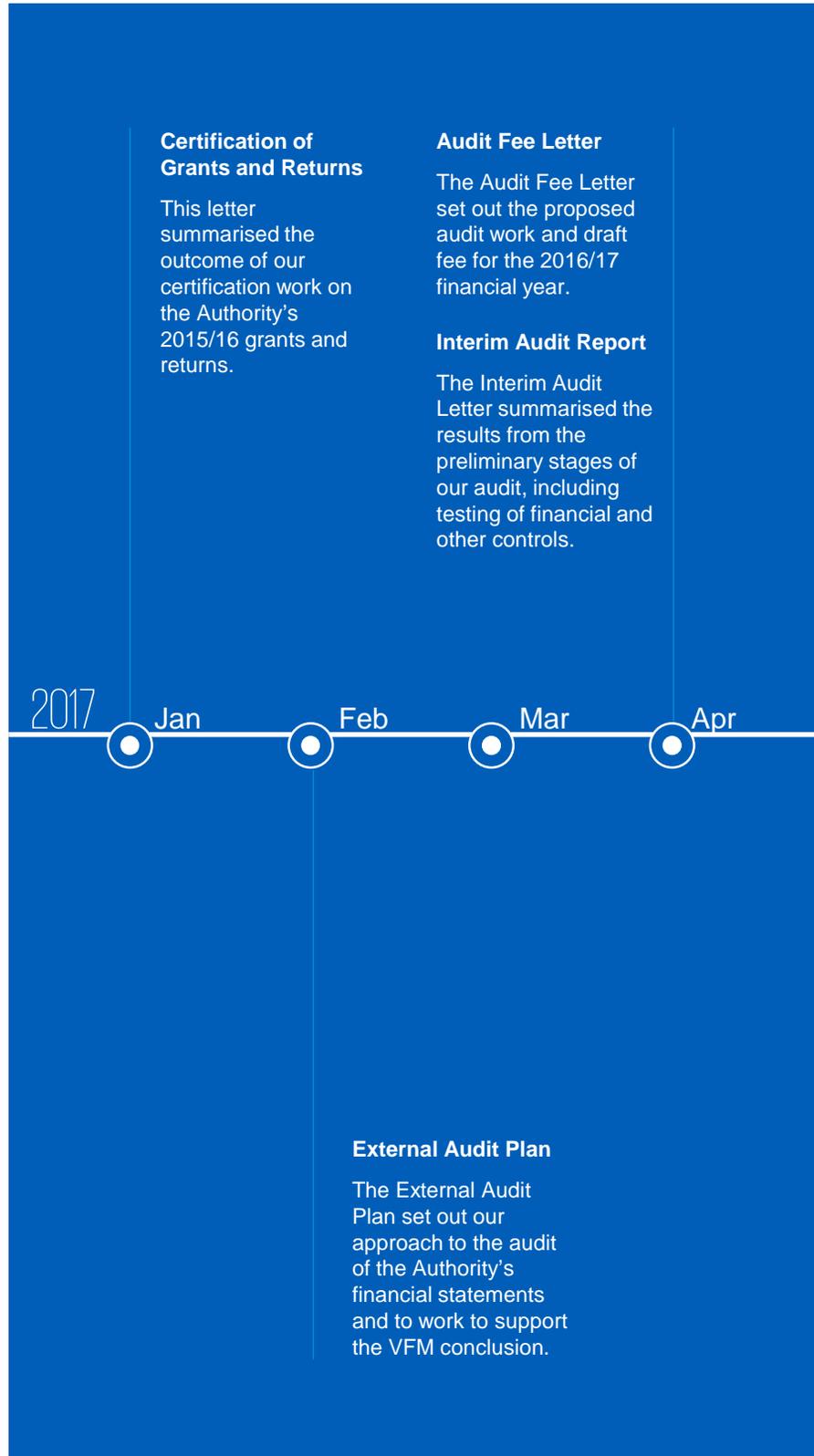
No.	H/M/L	Issue and recommendation	Management response/responsible officer/due date
1		<p><b>Performance management reporting</b></p> <p>The Council has been developing its new performance management reporting system for over twelve months now, during which time the reporting of KPIs to members has been informal and sporadic.</p> <p><b>Recommendation</b></p> <p>Implement the new performance management system as a matter of urgency, so that Members are clearly and regularly informed about the Council’s non-financial performance levels.</p> <p>The new system should then be drawn upon when considering the range of non-financial performance indicators that could be incorporated into the Narrative Report in the future, in line with the requirements of the Accounts &amp; Audit Regulations 2015.</p>	<p><b>Management Response</b></p> <p>Accepted</p> <p>Implementation of new Performance Management System has commenced and will be completed before end of 2017/18</p> <p><b>Owner</b></p> <p>Head of Policy &amp; Resources</p> <p><b>Deadline</b></p> <p>March 2018</p>

## Appendix 2

# Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at [www.gloucester.gov.uk](http://www.gloucester.gov.uk).





**Annual Audit Letter**

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

May

Jun

Jul

Aug

Sep

Oct

Nov

**Report to Those Charged with Governance**

The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

**Auditor's Report**

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

## Appendix 3

# Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

### External audit

Our final fee for the 2016/17 audit was £70,491. This compares to a planned fee of £63,450. The reasons for this variance are:

- an increased fee for the audit of the financial statements reflecting additional costs incurred in carrying out the final accounts audit of £7,041 over and above our initial estimate in relation to:
  - the change in financial system; and
  - the specific VFM risks which were subject to audit during the year.

Our fees are still subject to final determination by Public Sector Audit Appointments.

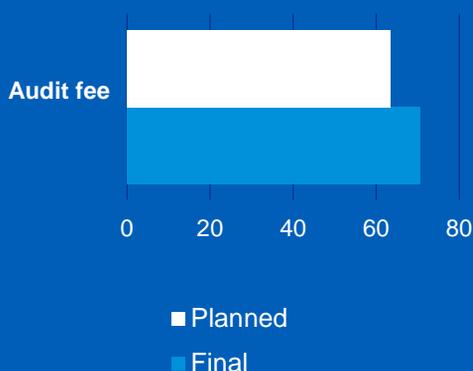
### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2018.

### Other services

We did not charge any additional fees for other services.

External audit fees 2016/17 (£'000)



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