



Annual Audit Letter 2017/18

**Gloucester City
Council**

31 July 2018



A professional photograph showing several people from behind or in profile, all dressed in business attire (suits and ties). The individuals represent different ethnicities and ages. They appear to be seated around a table, possibly during a formal meeting or presentation.

Section one

Summary for Audit & Governance Committee

Summary for Audit & Governance Committee

This Annual Audit Letter summarises the outcome from our audit work at Gloucester City Council ("the Authority") in relation to the 2017-18 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.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 26 July 2018. 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 the consolidated financial statements for Authority's Group, which consists of the Authority itself and its share of Gloucestershire Airport Limited.

Financial statements audit

Our audit identified four audit adjustments with a total value of £32 million. These adjustments resulted in a net increase of £32 million in the reported deficit on provision of services and a net increase of £0.5 million in the general fund.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – We carried out appropriate controls testing and substantive procedures included over journal entries, accounting estimates and significant transactions that are outside the normal course of business or otherwise unusual. There were no matter arising from this work that we need to bring to your attention.
- **Valuation of Property Plant & Equipment (PPE)** – We determined that the year-end valuations of PPE are reasonable;
- **Pensions Liabilities** – We determined that the assumptions and methodology used by the scheme actuary were in totality appropriate and the asset valuation and allocation was reasonable;
- **Faster Close** – New legislation required the timetable for the production of the financial statements to be significantly advanced this year with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). This faster close deadline was successfully achieved;
- **Major capital transactions** – During 2017/18, the Council entered into a significant transaction to dispose of its freehold interest in the majority of the King's Walk shopping centre and enter into a finance lease for the wider asset. This was a highly complex transaction with unclear accounting requirements so significant research was required by the finance and audit teams prior to and after the preparation of the Authority's financial statements to identify the required accounting treatment. Some aspects of the accounting treatment were not settled when the draft accounts were prepared which has meant that material changes have been made which are reflected in the final version of the accounts. The Council had not considered the detailed accounting implications of the transaction or sought external accounting advice at the time it was entered into, so we have made a recommendation about the importance of doing so on major complex transactions in the future.

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.

Section one:

Summary for Audit & Governance Committee (cont.)

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.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 26 July 2018. 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.

Value for Money 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:

- **Delivery of Budgets** – The Authority delivered a small overspend against the 2017/18 budget and made good progress in developing medium term savings plans. While the Council has suitable arrangements in place currently, there remains uncertainty over the years following the plan, and it is likely that the Council will need to continue to make difficult decisions in order to identify and deliver future savings to deliver services and meet ongoing debt and lease servicing costs.
- **Performance management** – The Pentana performance measurement system is now active and Key Performance Indicators are to be published annually.
- **Major Capital Transactions** – King's Walk Shopping Centre deal was conducted with a strong focus on the long term commercial considerations and demonstrated sound principles of governance in decision making. However, as noted above, the absence of any consideration of the accounting treatment of the transaction was a notable omission, with the ultimate accounting treatment impacting on the timing through which the financial incentives of the deal are to be recognised.

High priority recommendations

We raised one high priority recommendation as a result of our 2017-18 work:

- Seek appropriate accounting advice in a timely manner for complex transactions.

This is detailed in Appendix 1 together with the action plan agreed by management.

Section one:

Summary for Audit & Governance Committee (cont.)

Certificate

We issued our certificate on 26 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our estimated fee for 2017-18 was £74,205, excluding VAT (2017: £70,490). This includes an additional fee which for the additional work performed over the King's Walk shopping centre transaction. The fee will be subject to PSAA's final determination. Further detail is contained in Appendix 3.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.



Appendices



Appendix 1:

High risk recommendations

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those 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.

Details of lower risk recommendations can be found in our *ISA260 Report 2017-18*.

No.	Risk	Issue & Recommendation	Management Response
1	1	<p>The King's Walk shopping centre development was entered into without seeking external accounting advice, which resulted in material differences between the initial proposed treatment and the final accounts.</p> <p>It also meant that the decision to proceed with the transaction was made without a full and correct understanding of the financial implications, notably that all of the £19.8m of lease incentive payments were expected to be accounted for as income in 2017/18, whereas the final position is that £4.78m will be recognised over the first five years with a further £9.87m over the 45 year term of the lease agreements.</p> <p>Risk</p> <p>Incorrect consideration of accounting impact of complex transactions may result in misstatement of the Council's accounts, as well as increasing the risk of misinformed decision making should decisions be based on an incorrect accounting treatment.</p> <p>Recommendation</p> <p>Seek appropriate accounting advice in a timely manner for complex transactions.</p>	<p>The Council follows a comprehensive process of due-diligence in relation to all matters of significant capital acquisition. In future, where such acquisitions are likely to include accounting treatments outside of typical day to day activities, this will include consideration of the accounting treatment.</p> <p>Responsible Officer</p> <p>Jon Topping</p> <p>Implementation Deadline</p> <p>01/08/2018</p>

Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. We are pleased to report that the Authority has taken appropriate action to address the issues that we have previously highlighted through high priority recommendations.

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 & Governance Committee pages on the Authority's website at www.goucester.gov.uk.

Certification of Grants and Returns

This letter summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

2018

January

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

February

March

April

Interim Audit Letter

The Interim Audit Letter summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

May

June

July

August

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 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.

September

October

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

Appendix 1:

Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit

Our final fee for the 2017-18 audit was £74,205. This compares to a planned fee of £63,450. This is as a result of an additional fee of £10,755 for the additional work performed over the King's Walk shopping centre transaction.

Our fees in relation to this additional fee are still subject to final determination by Public Sector Audit Appointments.

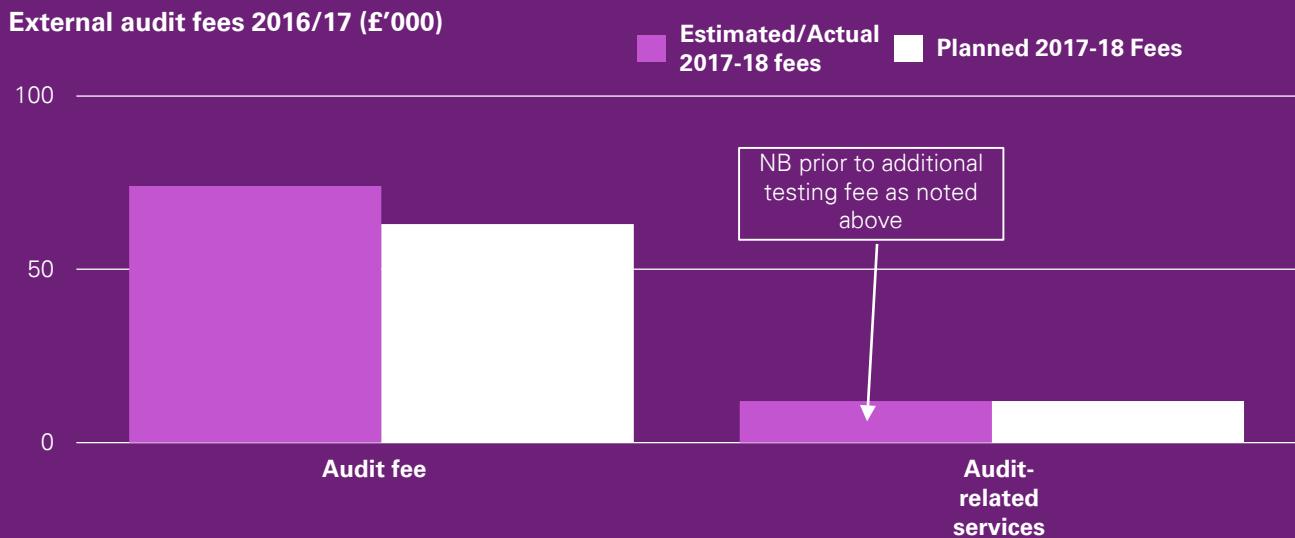
Certification of grants and returns

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 scale fee for this work is £11,863, although we expect the final fee to be higher as a result of additional testing to follow up issues identified in previous years. The final fee is still to be determined and will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We did not charge any additional fees for other services.

External audit fees 2016/17 (£'000)





The key contacts in relation to our audit are:

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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (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 [...], 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, by email to 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 by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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