



# Gloucester City Council

## Audit and Governance Committee

**Meeting: Monday, 20th January 2020 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP**

<b>Membership:</b>	Cllrs. Melvin (Chair), Brooker (Vice-Chair), Bowkett, Hampson, Lugg, D. Norman, Taylor, Wilson and Williams
<b>Contact:</b>	Democratic and Electoral Services 01452 396126 <a href="mailto:democratic.services@gloucester.gov.uk">democratic.services@gloucester.gov.uk</a>

## AGENDA

<b>6.</b>	<b>DELOITTE AUDIT PLAN</b> (Pages 5 - 28)  To receive the external auditor's Audit Plan for 2019/20.
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**Jon McGinty**  
Managing Director

**Date of Publication: Friday, 10 January 2020**

## NOTES

### Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

<u>Interest</u>	<u>Prescribed description</u>
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area.  For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and (b) either – i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with

whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, “securities” means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

### **Access to Information**

Agendas and reports can be viewed on the Gloucester City Council website: [www.gloucester.gov.uk](http://www.gloucester.gov.uk) and are available to view five working days prior to the meeting date.

For enquiries about Gloucester City Council’s meetings please contact Democratic Services, 01452 396126, [democratic.services@gloucester.gov.uk](mailto:democratic.services@gloucester.gov.uk).

If you, or someone you know cannot understand English and need help with this information, or if you would like a large print, Braille, or audio version of this information please call 01452 396396.

### **Recording of meetings**

Please be aware that meetings may be recorded. There is no requirement for those wishing to record proceedings to notify the Council in advance; however, as a courtesy, anyone wishing to do so is advised to make the Chair aware before the meeting starts.

Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the Public and Press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

### **FIRE / EMERGENCY EVACUATION PROCEDURE**

If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions:

- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.

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Planning report to the Audit & Governance Committee for the year ending 31 March 2020

Issued on 15 January for Audit & Governance Committee meeting on 20 January 2020

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# Audit lead introduction

## The key messages in this report

I have pleasure in presenting our planning report to the Audit & Governance Committee for the audit of the 2019/20 financial statements. I would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements;
- A strong understanding of your internal control environment; and
- A well planned and delivered audit that raises findings early with those charged with governance.

### Audit Plan

- We have developed this plan to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.
- Our basis for calculating materiality is set out on page 5. The basis is consistent with that used for the Council in the prior year.
- We note that a separate Audit Plan will be produced in relation to the Pension Scheme Accounts.

### Key risks

- We have taken an initial view as to the significant risks the council faces. These have been identified as:
  - Completeness of Creditors;
  - Management Override of Controls;
- In addition, other areas of audit focus are identified as:
  - Pension liability valuation
  - Property valuation
  - Value for Money

### Regulatory

- Our audit is carried out under the Code of Audit Practice issued by the National Audit Office.

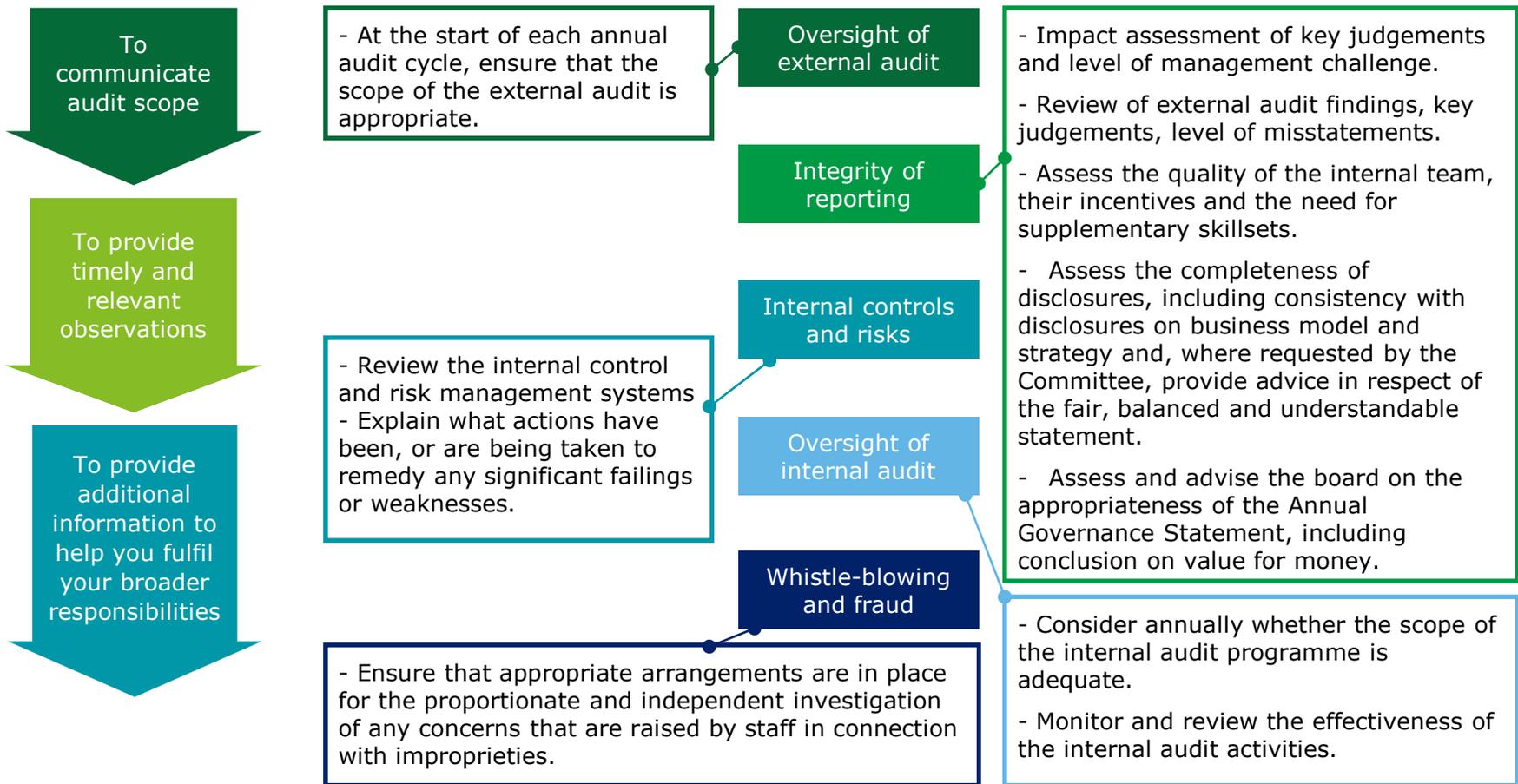
# Responsibilities of the Audit & Governance Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit & Governance Committee?

As a result of regulatory change in recent years, the role of the Audit & Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit & Governance Committee responsibility to provide a reference in respect of these broader responsibilities.

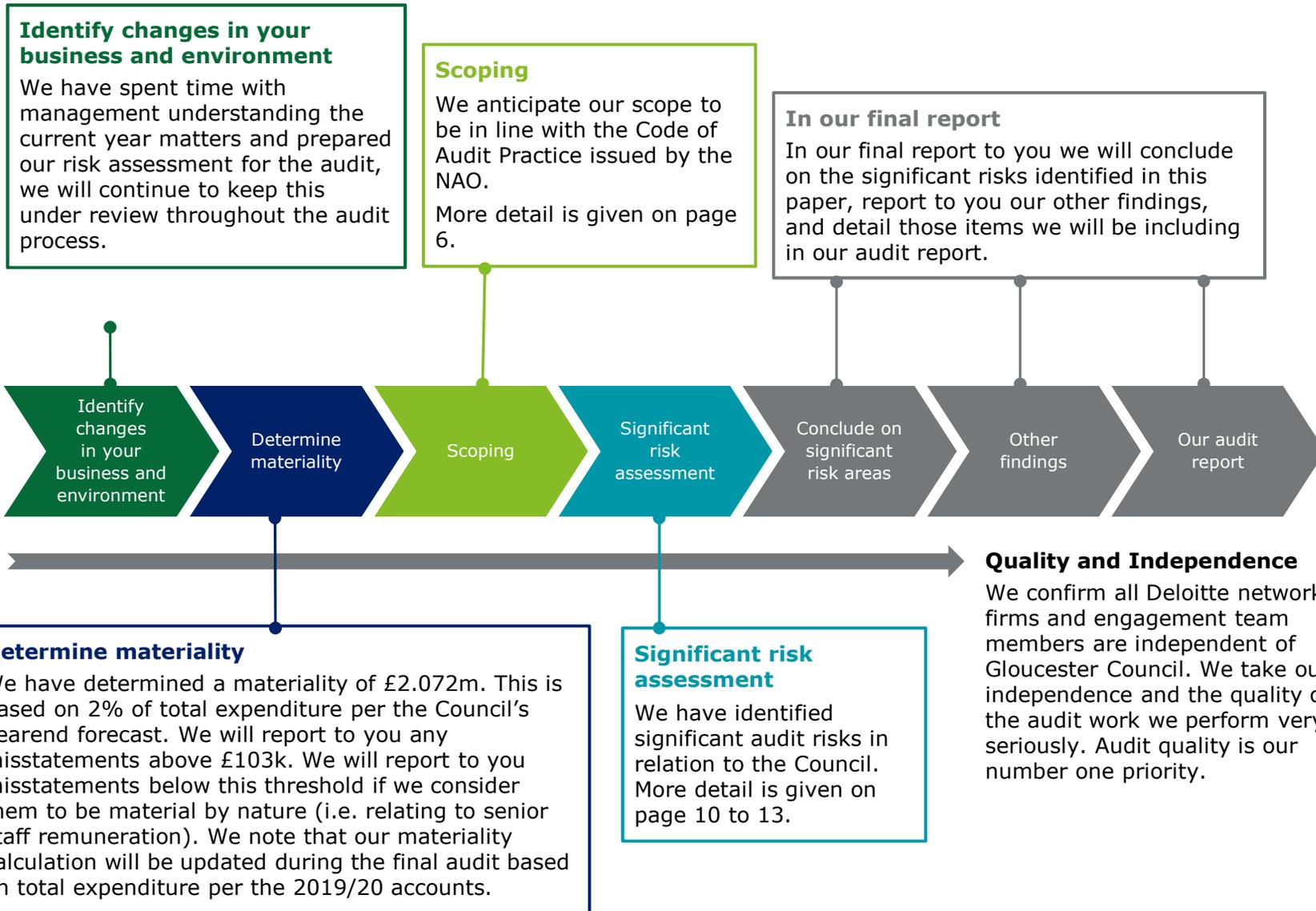
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# Our audit explained

We tailor our audit to your business and your strategy

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# Scope of work and approach

## Scope: we have three key areas of responsibility under the Audit Code

### **Financial statements**

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

### **Annual Governance Statement**

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

### **Value for Money (VfM) conclusion**

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VfM.

Our work therefore includes a detailed ongoing risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

# Scope of work and approach

## Our approach

### Liaison with internal audit

The Auditing Standards Board’s version of ISA (UK and Ireland) 610 “Using the work of internal auditors” prohibits use of internal audit to provide “direct assistance” to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work where necessary. We will review the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit, where necessary, to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

### Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D&I”).

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

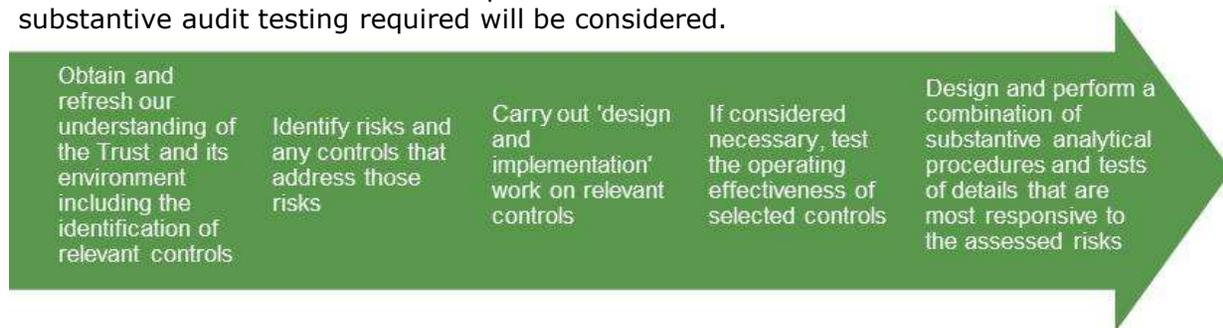
We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

### Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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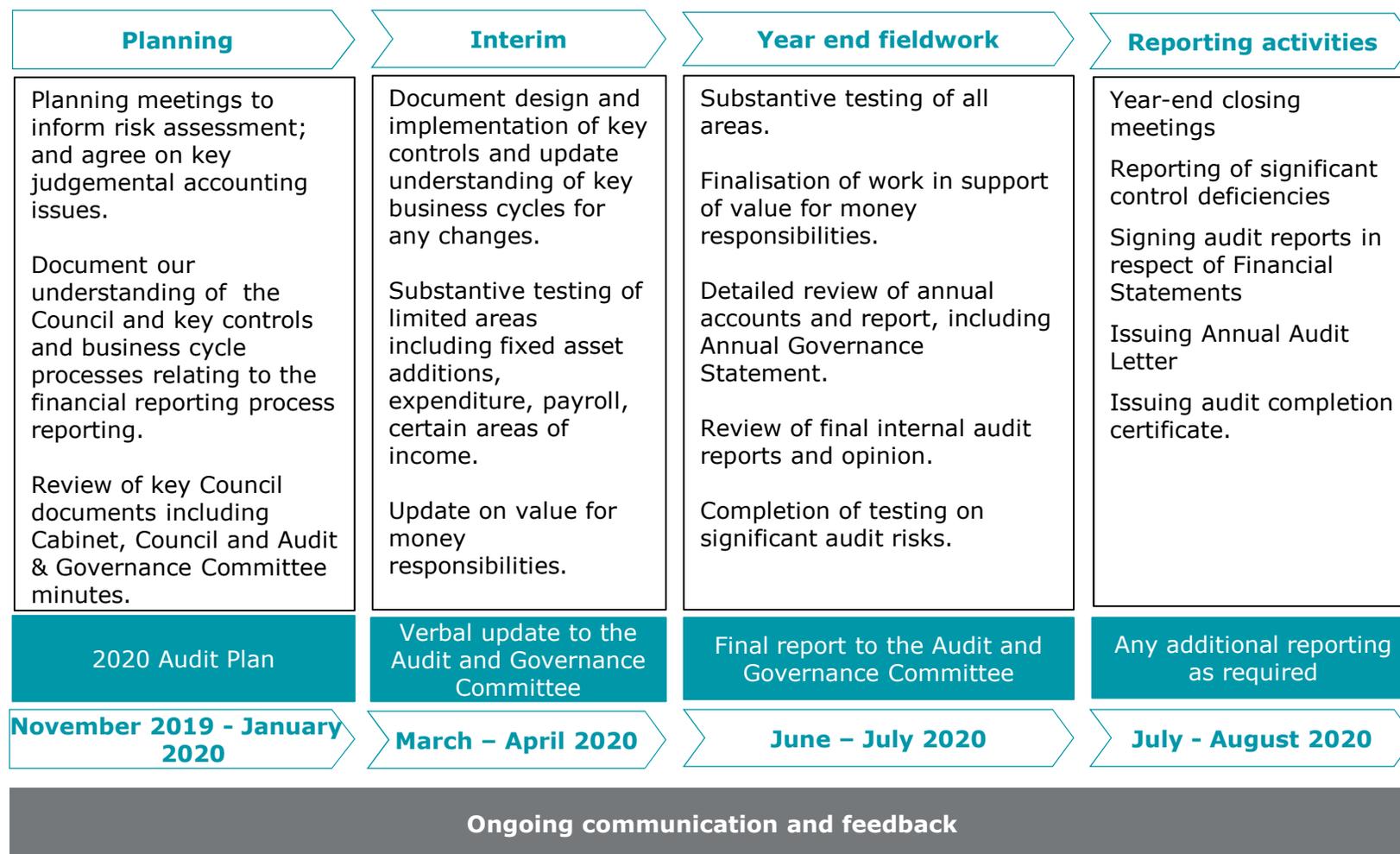


# Continuous communication and reporting

## Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you. Please note timing of the Grant work will be communicated separately.

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# Materiality

## Our approach to materiality

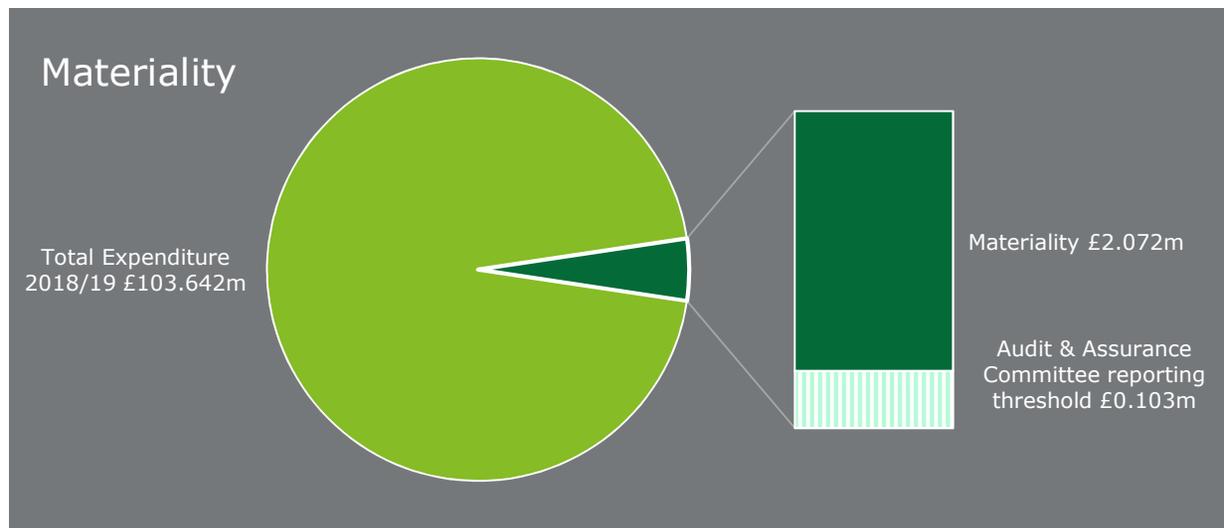
### Basis of our materiality benchmark

- The audit lead has determined materiality as £2.072m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of total expenditure based on the Council's 2018/19 actual expenditure as the benchmark for determining materiality.
- We will re-visit the determined materiality based on completion of interim audit procedures.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of £103k.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

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Although materiality is the judgement of the audit lead, the Audit & Governance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

# Significant risks

## Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

### Expected principal risks

- Property valuations
- Impairment
- Economic environment
- Demand Led Services
- Funding Settlement
- IT
- Regulatory

### IAS 1 Critical accounting estimates

- Impairment
- Provisions and contingencies
- Property valuations
- IFRS16

### Changes in your business and environment

The Council purchased St Oswalds Retail Park and Eastgate Shopping Centre in Gloucester, there are no other significant changes to note at the time of the plan.

The next page summarises the significant risks that we will focus on during our audit.

### Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

# Significant Audit Risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in our report to the Audit and Governance Committee	Slide no.
Completeness of Creditors			D+I			12
Management Override of Controls			D+I			13

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D+I: Assessing the design and implementation of key controls

Low Level of Judgement 

Medium Level of Judgement 

High Level of Judgement 

# Significant Audit Risks

## Risk 1 – Completeness of Creditors

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<b>Risk identified</b>	<p>Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of creditors.</p> <p>For 2019/20, the Council approved a budget with a net cost of service of £8.8m. As at November 2019, the Council reported a forecast spend of £63.7m, resulting in a forecast overspend of £1.6m. The Council did not achieve a balanced position in the prior year. Given the Council's current budget position and the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals and provisions.</p>
<b>Our response</b>	<p>Our work in this area will include the following:</p> <p>We will obtain an understanding of the design and implementation of the key controls in place in relation to recording completeness of creditors;</p> <p>We will perform focused testing in relation to the completeness of creditors by completing focused unrecorded liability testing; and</p> <p>We will review the year on year movement in accruals and will investigate any significant movements.</p>

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# Significant Audit Risks

## Risk 2 – Management Override of Controls

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**Risk identified**

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks and areas of audit interest: completeness of creditors and valuation of the Council's estate and pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

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**Our response**

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

We will test the design and implementation of key controls in place around journal entries and management estimates;

We will risk assess journals and select items for detailed testing. A sample of journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest. The appropriateness of these journals will be assessed through detailed testing;

We will review accounting estimates for biases that could result in material misstatements due to fraud; and,

We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

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# Other Areas of Audit Interest

## Property Valuation

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**Risk identified** The Council held £65.3m of property assets (land and buildings) at 31 March 2018 which increased to £67.2m as at 31 March 2019. The increase was in part due to upwards revaluations of £3.3m as a result of the Council undertaking a full valuation exercise during 2018/19. As well as transfers between classes accounting for a £8.7m increase in property valuation.

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a four year cycle. As a result of this, however, individual assets may not be revalued for four years. There is therefore a risk that that the carrying value of assets not included in the Council's revaluation process in the current year materially differ from the year end fair value.

The rolling programmed for 2018/19 covers a quarter of the Council's portfolio including all the investment assets. Surplus assets and assets held for sale are assessed for impairment on an annual basis. This is primarily completed by Estates however an external third party valuer was used on two assets in 2018/19.

The Council purchased St Oswalds Retail Park and Eastgate Shopping Centre for a total of £64m, there is a risk that these are recognised in the financial statements inappropriately.

The property valuation is an area of audit interest as even though the year-end valuations are material they are performed by an independent expert on assets of a unique nature, such as schools and leisure centres whereby the valuations should not materially change year-on-year.

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**Our response** We will understand how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;

We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;

We will review the purchase of the retail park and shopping centre throughout the audit and assess the valuation for and how these transactions have been accounted for;

We will use our valuation specialists (Deloitte Real Estate) where considered appropriate, to support our review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's Land and Buildings; and

We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

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# Other Areas of Audit Interest

## Pensions Liability Valuation

**Risk identified** The Council are part of the Local Government Pension Scheme operated by Gloucestershire County Council. The Council recognised a combined pensions liability of £64m at 31 March 2018 which increased to £69m as at 31 March 2019. The Code requires that their year end carrying value should reflect the appropriate fair value at that date.

Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required for each council.

The pensions valuation is an area of audit interest due to the material values attached to the valuations and disclosures in the financial statements. This has not been classified as a significant risk as there are limited movements in the membership data, and we understand that the assumptions and methodologies used are consistent with those in the previous years. We also understand that there have been no significant changes in the membership of the scheme or accrual of benefits for the year.

**Our response** We carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data, assets and liabilities) using a developed methodology which takes into account factors such as an assessment of the actuary. We scope our work, including the nature and extent of our actuarial specialists involvement, in a way which responds to this detailed risk assessment. Should our risk assessment change our overall audit approach in respect of testing pensions, we will notify the Committee.

We will confirm the disclosure of the pension figures in the statement of accounts agree with those provided by the scheme actuary.

## Value for Money

**Risk identified** Under the NAO Code, we are required to report whether, in our opinion: the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In the current year the Council purchased St Oswalds Retail Park and Eastgate Shopping Centre for a total of £64m, there is a risk that the purchase of these two properties will effect value for money in providing services as a local authority to the residents.

**Our response** Our work in this area will include:

- A full understanding of the intensions the Council have for the use of the two centres; and
- Monitor if there is a significant value for money risk that could arise, if so value for money will be escalated to a significant audit risk which will result in more detailed procedures being performed.

# Maintaining audit quality

## Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

### The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)
- Deloitte fully supports an independent review into the role of auditors
- The Government's Brydon Review will consider UK audit standards and how audits should evolve

### Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model

### Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies

### Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts
- We have governance in place to assess any areas of potential conflict, including where required to protect the public interest
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)

### Deloitte

- Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest
- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>
- Our response to the latest AQR report is on slide 23.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope.

### Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

### What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

**Deloitte LLP**

Bristol | 15 January 2020

# Appendices

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# Fraud responsibilities and representations

## Responsibilities explained



### Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



### Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in relation to the completeness of expenditure and management override of controls as key audit risks for your organisation.



### Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### We will request the following to be stated in the representation letter signed on behalf of the Board:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



### **Internal audit**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



### **Those charged with governance**

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of Gloucester City Council and will reconfirm our independence and objectivity to the Audit & Governance Committee for the year ending 31 March 2020 in our final report to the Audit & Governance Committee .
<b>Fees</b>	Details of the fees proposed for the period have been presented separately on the next page. There are no non-audit fees.
<b>Non-audit services</b>	In our opinion there are no inconsistencies between the FRC’s Ethical Standard and the Council’s approach for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	We have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

# Independence and fees

The professional fees expected to be charged by Deloitte LLP in the period from 1 April 2019 to 31 March 2020 are as follows:

	Current year £ (excluding VAT)
<b>Gloucester City Council Financial Statements</b>	
Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment	48,857
<b>Grant Audit</b>	
Audit in accordance with DWP specification to include case checks from the headline cells and completion of the DWP workbooks.	10,000*
<b>Total audit</b>	<b>58,857</b>
<b>Total fees</b>	<b>58,857</b>

\*Where additional (40+) testing is required either under the CAKE requirements or due to detection of errors. Cases for testing will be selected by the audit team and communicated to the Authority’s team for testing. Team will then perform limited subsampling of the results of this testing. Additional £1,500 of fees per cohort of 40+ testing will be required. Furthermore, where drafting and agreeing a qualification letter is required, there will be additional fees of £1,500.

We confirm all Deloitte network firms are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority

Deloitte fees and planned timescales for completion of the audit are based on the following assumptions:

- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;
- information provided to support the financial statements is in accordance with the agreed audit deliverables document;
- appropriate accommodation and facilities are provided to enable the audit team to deliver the audit in an efficient manner;
- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that are required in the Letter of Representation addressed to the engagement partner; and
- Internal Audit’s planned programme of work is complete and management has responded to issues that may have affected the financial statements.

# Our approach to quality

## AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

#### **"Our key individual review findings related principally to the need to:**

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

#### **"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:**

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

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