



# Gloucester City Council

## Audit and Governance Committee

**Meeting: Monday, 13th September 2021 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP**

<b>Membership:</b>	Cllrs. Wilson (Chair), Brooker (Vice-Chair), Bowkett, Patel, Durdey, Evans, Melvin and Pullen
<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 EXTERNAL AUDIT REPORT 2020/21 (ISA 260 TO THOSE CHARGED WITH GOVERNANCE) (Pages 5 - 36)</b>  To receive the report of the Council's External Auditor
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**Jon McGinty**  
Managing Director

**Date of Publication: Friday, 3 September 2021**

## 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**

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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.

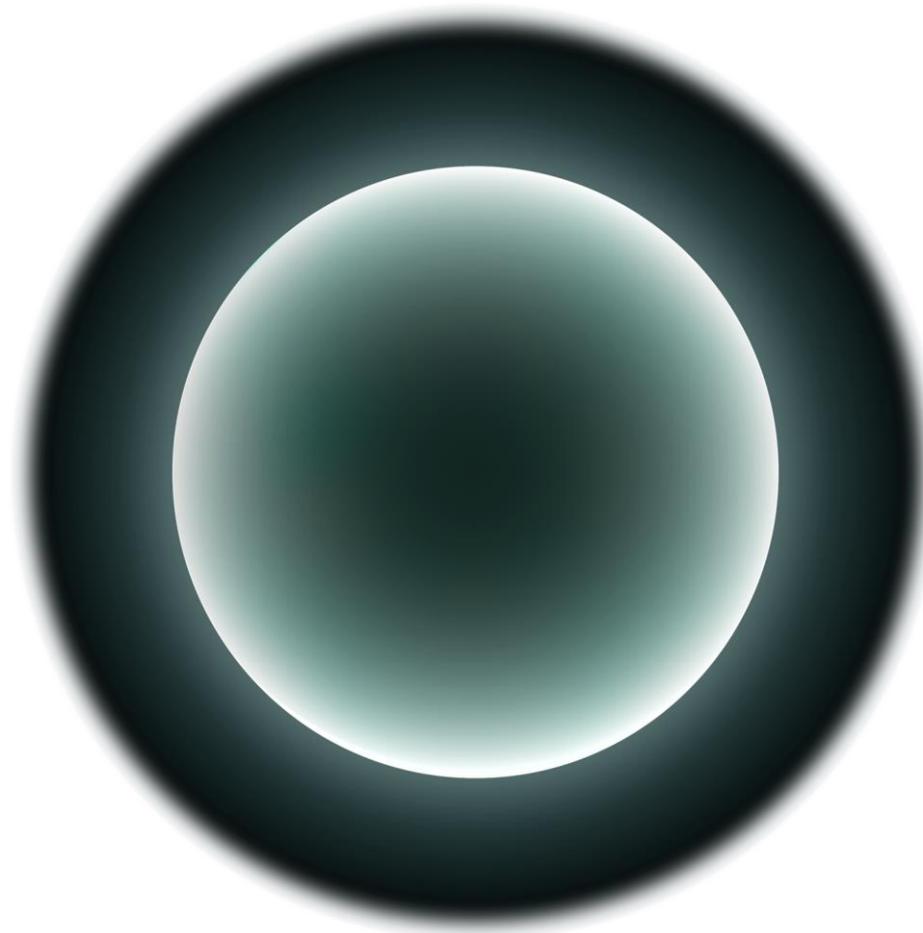
Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the Public and Press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

### **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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# Gloucester City Council

Report to the Audit & Governance Committee on the 2020/21 audit

Issued on 7 September 2021 for the meeting on 13 September 2021

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# Introduction

## The key messages in this report

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.
- A well planned and delivered audit that raises findings early with those charged with governance.

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I have pleasure in presenting our final report to the Audit & Governance Committee of Gloucester City Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2021.

### **Status of our Statement of Accounts audit**

- Our audit is substantially complete subject to completion of the following principal matters:
- receipt of IAS19 letters from the Gloucestershire County Council Pension Fund auditors and completion of audit procedures once received;
  - completion of work on Property Valuations and receipt of responses from the Council's external valuers;
  - completion of work on Covid-19 and capital grants;
  - completion of work on disclosures;
  - completion of work on the Council's investment in Gloucestershire Airport Ltd;
  - receipt of final financial statements with review comments addressed and Council completed CIPFA checklist;
  - completion of internal quality assurance procedures;
  - receipt of signed management representation letter; and
  - our review of events since 31 March 2021 through to signing.

We will provide an oral update at the meeting.

### **Status of our Value for Money audit**

Our Value for Money work is on-going, and will be reported before 30 November 2021 in our Auditor's Annual Report, which is within the three month timeframe allowed under the National Audit Office Auditor Guidance Note 3.

We have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going.

### **Conclusions from our testing**

- The key judgements in the audit process related to:
  - accounting for pension liabilities;
  - valuation of property assets; and
  - valuation of Gloucestershire Airport Ltd.

The above work is still in progress and we will conclude on these items.

# Introduction

## The key messages in this report (continued)

### Conclusions from our testing (continued)

- We have not identified any significant audit adjustments or disclosure deficiencies at the time of this report. However, items may be identified on completion of the outstanding items.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.
- A revaluation of the fair value of the Council's interest in Gloucestershire Airport Ltd was undertaken by ArlingClose, resulting in a valuation of £0.1m. At the last valuation date (2018/19), the fair value of the Council's interest was £1.7m. Although not material, we identified it as an area of audit interest due to the judgement involved and the sensitivity of the valuation. We engaged a valuation specialist to assess the methodology and assumptions of the valuation. The valuation specialist is still in discussions with ArlingClose over the methodology used.

### Narrative Report & Annual Governance Statement

- We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.
- The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.
- We have raised comments on the Narrative Report and are waiting on receipt of the final version.

### Duties as public auditor

- We did not receive any queries or objections from local electors this year.
- The publication of the Statement of Accounts for inspection is a legal requirement.
- We have not identified any matters that would require us to issue a public interest report.
- We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

### Whole of Government Accounts

- The Council is not a sampled component for WGA reporting.
- We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.

Michelle Hopton  
Audit Lead

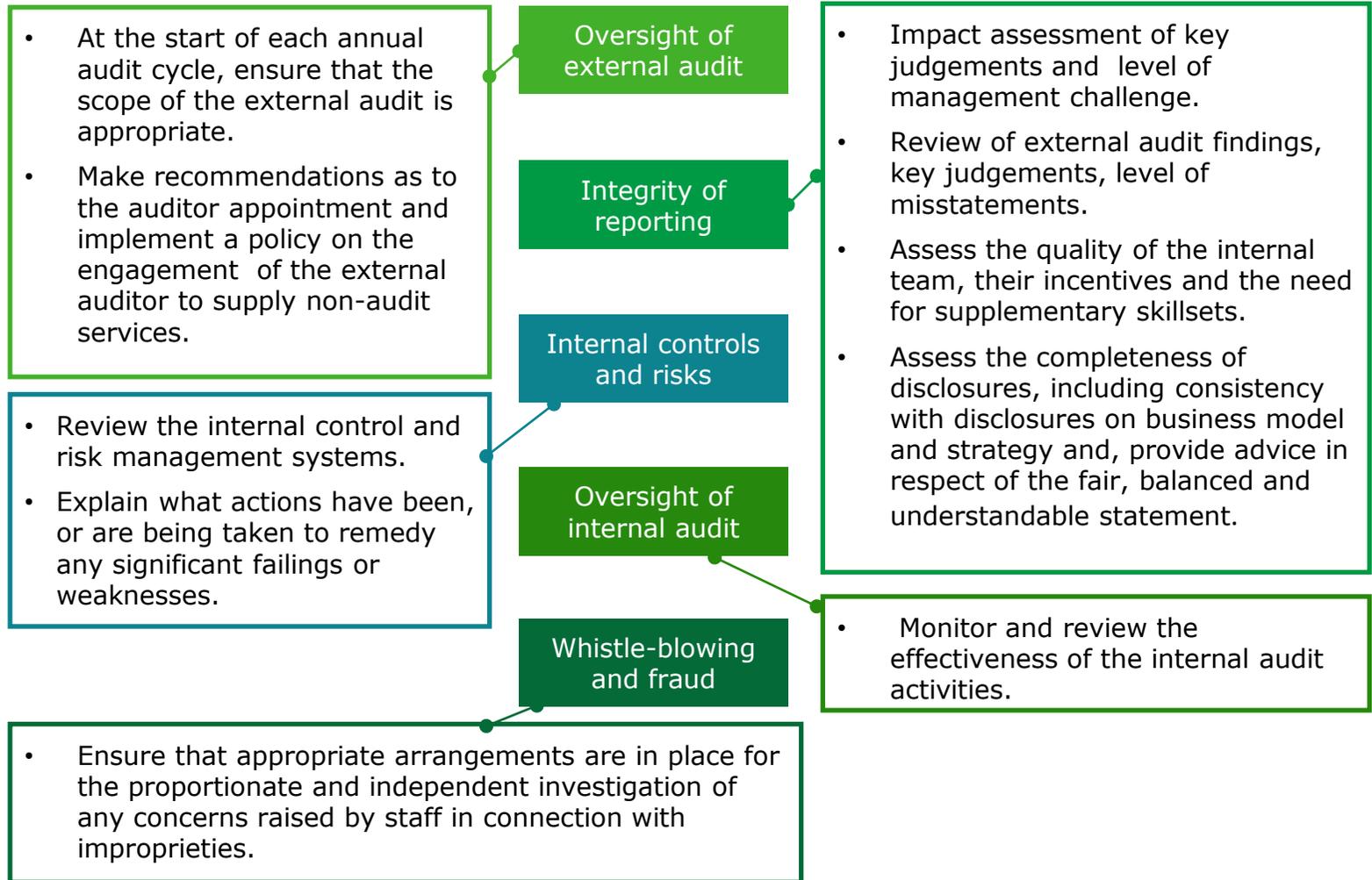
# Responsibilities of the Audit & Governance Committee

## 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 and highlight throughout the document where there is key information which helps the Audit & Governance Committee in fulfilling its remit.



We use this symbol to highlight areas of our audit where the Audit & Governance Committee needs to focus attention.

# Quality indicators

## Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements		Accounting judgements (e.g. property and airport revaluations) were communicated to the audit team promptly.	Page 4
Adherence to deliverables timetable		There were delays to the deliverables timetable, and delays to the returning of samples due to capacity. For example, creditors samples went out on 6 July and were not resolved in full until 25 August.	-
Access to finance team and other key personnel		The finance team made every effort to make themselves available throughout the audit.	-
Quality and timing of Audit & Governance Committee papers		No issues identified.	-
Quality of draft financial statements		The draft financial statements contained typos and differences from the underlying financial information.	Page 17
Response to control deficiencies identified		Control deficiencies have been discussed with management and accepted where no mitigating controls exist.	Page 17
Volume and magnitude of identified errors		Low volume and magnitude of identified errors.	Page 23

 Lagging  Developing  Mature

# Our audit explained

We tailor our audit to your business and your strategy



# Significant Risks and Areas of Audit Focus

## Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
<b>Significant risks</b>							
Completeness of Creditors				Satisfactory		Satisfactory	9
Property Valuations				Satisfactory		Satisfactory	10
Management override of controls				Satisfactory		Satisfactory	11
<b>Area of Audit Focus</b>							
Pension liability valuation				Satisfactory		Satisfactory	13

### Controls approach adopted

Assess design & implementation

# Significant risks

## 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 2020/21, the Council approved a budget with a net cost of service of £0.1m. The Council did not achieve a balanced position in the current or 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.</p>
<b>Deloitte response and challenge</b>	<p>We have completed the following procedures:</p> <ul style="list-style-type: none"><li>• Assessed the design and implementation of the controls in relation to recording completeness of creditors;</li><li>• Performed focused testing in relation to the completeness of creditors by completing unrecorded liabilities testing; and</li><li>• Reviewed the year on year movement in accruals and investigated any significant movements.</li></ul>
<b>Conclusion</b>	<p>After completing our work we have an extrapolated error above our reporting threshold. This is set out in more detail in the appendices. See page 23.</p>

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# Significant audit risks (continued)

## Valuation of property assets

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**Risk identified**

The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

The Council held £83.4m of property assets at 31 March 2021, an increase of £3.4m when compared to 31 March 2020. Investment property assets total £48.6m, a decrease of £11.3m when compared to 31 March 2020 due to changes in the fair value of assets.

The Council updates the valuation of its properties using a rolling revaluation programme. In 2020/21, it engaged valuers to carry out a full revaluation of its property portfolio, using a mix of internal and external reviewers.

In 2019/20, the revaluation reports of externally revalued assets included a material uncertainty paragraph regarding the potential impact of Covid-19 on asset valuations. Due to updated RICS guidance, this does not apply to the revaluation reports received in 2020/21 and therefore we do not expect to make reference to this in our opinion as an Emphasis of Matter.

A revision of ISA 540 was undertaken and came into effect for 31 March 2021 year ends for local authorities, impacting our work on property valuations.

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**Deloitte response and challenge**

We have completed the following procedures:

- We have reviewed the design and implementation of the controls in place in relation to property valuations;
  - We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
  - We have engaged our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions and inputs used in the valuation of the Council's property assets, in line with the requirements of ISA 540;
  - We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts; and
  - We have challenged management's assessment of whether any impairment arises in respect of newly capitalised expenditure.
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**Conclusion**

At the time of the report, we have no matters to bring to the attention of the Audit & Governance Committee. However, work by our DRE specialist is still in progress due to ongoing communication with the Council's valuation experts.

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# Significant audit risks (continued)

## Management override of controls

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**Risk identified** Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

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**Deloitte response and challenge**

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that:

- The Council's results throughout the year were projecting overspends in operational areas, with a year-end position of £18,110k net expenditure. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

### Significant transactions

- We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

# Significant audit risks (continued)

## Management override of controls

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**Deloitte response and challenge****Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We reviewed the accuracy of prior year estimates.
- We assessed the design and implementation of controls relating to significant management estimates, in accordance with ISA540.

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**Conclusion**

After concluding our work, we identified a control deficiency to bring to the attention of the Audit & Governance Committee. For more information, see page 17.

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# Other areas of audit focus

## Pension liability valuation

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**Risk identified** The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Gloucestershire County Council Pension Fund, which is part of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2021, this totalled £58.4m. As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated.

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**Deloitte response and challenge**

We have completed the following procedures:

- We obtained a copy of the actuarial report for the Council produced by Hyman Robertson, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures.
- We reviewed the disclosures made in the Statement of Accounts against the requirements of the Code.
- We liaised with the audit team of Gloucestershire County Council Pension Fund, Grant Thornton, to obtain assurances over the information supplied to the actuary in relation to the Council.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hyman Robertson, including benchmarking as shown in the table on the following page.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- As this has been identified as a significant estimate under ISA 540, we assessed the design and implementation of controls around the pension liability valuation.

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**Conclusion** At the time of the report, we have no matters to bring to the attention of the Audit & Governance Committee. However, we are awaiting receipt of information from Gloucestershire County Council Pension Fund auditors.

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# Other areas of audit focus (continued)

## Pension Liability Valuation

### Review of assumptions used by actuary

As part of our testing, we reviewed the assumptions used by the actuary and have set out below our assessment of the assumptions used in the IAS19 valuation.

Assumption	Council	Benchmark	Deloitte Assessment
Discount rate (% p.a.)	2.00%	1.95% - 2.15%	
Retail Price Index (RPI) Inflation rate (% p.a.)	3.30%	3.60% - 3.15%	
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.85%	Determined reasonable for the rates used.	
Salary increase (% p.a.) (over CPI inflation)	0.30%	In line with that used in the most recent funding valuation.	
Pension increase in payment (% p.a.)	2.85%	In line with CPI assumption	
Pension increase in deferment (% p.a.)	2.85%	In line with CPI assumption	
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.90	Within Threshold - close to Prudent Range	
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	22.90	Within Threshold - close to Prudent Range	

**Assessment key**

-  In reasonable range
-  Towards limit of reasonable range
-  Optimistic or Prudent

# Value for money

## Our work is on-going and will be reported in our Auditor's Annual Report

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### **Value for Money requirements**

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

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### **Status of our work**

Our Value for Money work is on-going, and will be reported before 30 November 2021 in our Auditor's Annual Report, which is within the three month timeframe allowed under the National Audit Office Auditor Guidance Note 3.

We have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going.

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# Value for money

## Our work is on-going and will be reported in our Auditor's Annual Report

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### **Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources**

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow-up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council's draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work; and
- considered the Council's financial performance and management throughout 2020/21.

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### **Findings of our work**

We have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going.

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# Your control environment and findings

## Control deficiencies and areas for management focus

Observation	Year first communicated, severity	Deloitte recommendation	Management response and remediation plan
<p>The fixed asset register does not reconcile on a gross basis and therefore cannot be reconciled to the opening numbers in Note 11 in the accounts.</p>	2019/20	<p> The fixed asset module should be updated to enable gross cost and depreciation to be included.</p> <p>We note that our previous finding about assets with nil NBV remaining in the fixed asset note in the accounts has been actioned by management.</p>	<p>The fixed asset module is part of the Civica Financial Management System. As recorded, the system shows the NBV figures and the Council reconcile the balances required for the fixed asset note in the accounts back to the module. The system is a 3<sup>rd</sup> party platform used by multiple Councils.</p>
<p>Journals do not require more senior authorisation. We noted a number of instances where journals were prepared and authorised by two individuals at the same level.</p>	2020/21	<p> Journals should be reviewed and approved by a more senior member of the team</p>	<p>Journal approval is limited to senior members of the finance team. The system ensures segregation of duties in the authorisation process.</p> <p>The nature and size of the team requires on occasion that senior team members (qualified accountants) prepare and input journals.</p> <p>In these instances, the approval is carried out by another senior member of the team with the relevant knowledge, experience and integrity to ensure appropriate operation of the control process.</p>

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# Your control environment and findings (continued)

## Control deficiencies and areas for management focus

Observation	Year first communicated, severity	Deloitte recommendation	Management response and remediation plan	
<p>Review of deferred income calculations in relation to Kings Walk is insufficient, leading to an over release of £344k from deferred income to the CIES in the draft financial statements.</p>	2019/20	!	<p>The release of deferred income should be reviewed in sufficient detail against the terms agreed with Reef Group Ltd on completion of the Kings Walk lease agreement.</p>	<p>The deferred income balance relates to the 5-year rent guarantee balance received on inception of the arrangement in July 2017. The remaining balance is being released on straight line basis over the remaining term of the guarantee to 6 July 2022; equating to a release of £791k in 2021/22 and the remaining £198k in 2022/23.</p> <p>The element of the guarantees relating to the service charges for specific empty units (£344k) has been released in 2020/21; as the Primark lease is now nearing completion.</p>
<p>We were unable to evidence any discussion with, or challenge of, the Legal team at year-end to enable management to identify legal provisions.</p>	2020/21	!	<p>The Legal team should prepare a report at year-end about possible legal provisions, which is then reviewed and signed off by Finance management.</p>	<p>Management will formalise the current year end discussion with One Legal to identify and challenge legal provisions.</p>

# Other significant findings

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### **Qualitative aspects of your accounting practices:**

No issues have been identified.

### **Other matters relevant to financial reporting:**

There are no other matters required to be raised.

### **Significant matters discussed with management:**

There have been no significant matters arising from the audit.

### **Liaison with internal audit:**

The audit team has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings.

We will obtain written representations from the Accounting Officer and board of directors on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

# Our audit report

## The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



### **Our opinion on the financial statements**

Our opinion on the financial statements is unmodified.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

In 2019/20, the revaluation reports of externally revalued assets included a material uncertainty paragraph regarding the potential impact of Covid-19 on asset valuations. Due to updated RICS guidance for 2020/21, we do not expect to make reference to this in our opinion as an Emphasis of Matter.



### **Value for Money reporting by exception**

Our opinion will note that our Value for Money work is on-going and will be reported in our Auditor's Annual Report.

We have no matters to report by exception in our financial statement audit opinion.



### **Irregularities and fraud**

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019

# Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement..

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>• Organisational overview and external environment;</li> <li>• Governance;</li> <li>• Operational Model;</li> <li>• Risks and opportunities;</li> <li>• Strategy and resource allocation;</li> <li>• Performance;</li> <li>• Outlook; and</li> <li>• Basis of preparation</li> </ul>	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted in the draft from our review, however it is still to be formally approved by the Audit &amp; Governance Committee.</p>

# 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 help the Audit & Governance Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

## 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.

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit & Governance Committee.

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

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

**Michelle Hopton**

For and on behalf of **Deloitte LLP**

Bristol | 7 September 2021

# Appendices



# Audit adjustments

## Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements decrease the CIES by £0.8 million, decrease net assets by £0.8 million and decrease the General Fund balance by £0.8 million.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>						
Deferred income from the Kings Walk acquisition was over-released	[1]	0.3	(0.3)	-	-	Page 17
Projected – March 2021 energy bill not accrued	[2]	0.3	(0.3)	-	-	Page 9
Impact of Goodwin liability not accounted for in the financial statements in 2019/20	[3]	0.2	(0.2)	-	-	Page 14
<b>Total</b>		<b>0.8</b>	<b>(0.8)</b>	<b>-</b>	<b>-</b>	
<b>Disclosure findings identified in current year</b>						
Note 38 - The present value of the Kings Walk lease liability over 5 years has been understated by £0.8m, with no impact on the primary statements		-	-	-	-	Page 17

[1] As part of the lease agreement for Kings Walk with Reef there is rent guarantee paid in advance. It was seen that there was a calculation error that has not been corrected

[2] As part of our unrecorded liabilities testing we saw that the March element of the energy bill had not been accrued for at year end. This amount to an under accrual of £66k which is trivial. As we test on a samples basis we are required to extrapolate the error which amounted to a projected value of £260k.

[3] The impact of the Goodwin liability should be recognised in 2020/21 as a past service cost in the income statement. A projected impact range of 0.1% to 0.25% of the Council's defined benefit obligation has been calculated by Deloitte Pension specialists, for a typical LGPS employer.

# 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 the Council and our objectivity is not compromised.
<b>Fees</b>	Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page
<b>Non-audit services</b>	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy 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>	The following slides provides details of all the relationships (other than the provision of non-audit services which are covered above) we have with ABC plc, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

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As part of our obligations under International Standards on Auditing (UK) and the FRC's Ethical Standard we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity:

Relationship / Service provided	Fees £'000	Threats to auditor independence	Evidence of informed management	Safeguards in place
Town planning advice in relation to guiding the preparation of a Joint Core Strategy for Tewkesbury Borough Council, Gloucester City Council and Cheltenham Borough Council.  This is an opportunity that Deloitte is tendering for, subsequent to PSAA approval.	Fee to be capped at 70% of the audit fee, under PSAA agreements	A self-review threat arises when the results of a non-audit service performed by the auditor or by others within the audit firm are reflected in the amounts included or disclosed in the financial statements.		If successful the work will be completed by a separate team within Deloitte and has no bearing on the financial information being audited.

# Independence and fees (continued)

The professional fees expected to be charged by Deloitte for the period from 1 April 2020 to 31 March 2021 are as follows:

	2020/21 Audit £	2019/20 Audit £
<b>Gloucester City Council Financial Statements</b>		
Original scale fee	48,857	48,857
Change to scale fee to reflect increased audit costs and nature of the council*	4,795	-
Value for Money	15,000	-
Scope changes and overruns – to be agreed and approved by PSAA	TBC**	27,013
<b>Grant Audit</b>		
Audit in accordance with DWP specification to include case checks from the headline calls and completion of the DWP workbooks	10,000***	20,500
<b>Total fees</b>	<b>78,652</b>	<b>96,370</b>

\*A number of factors have contributed to an increase in audit costs since the contract was tendered in 2017. We are now required to use specialists to a far greater degree to support our audit work and in particular where specialist input relates to a significant audit or management estimate or judgement.

\*\*During the course of the audit we were required to utilise additional specialists during the audit, such as the valuations of the Airport investment, we have incurred unplanned cost which were not built into the audit fee. On completion we will agree these with management and seek approval from the PSAA.

\*\*\*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.

# Our approach to quality

## AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 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 2020/21 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.

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC’s findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of

impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

# Our approach to quality

## AQR team report and findings

### The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP

“We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard”.

“Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management’s key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams’ oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue.”

“The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm’s methodology and guidance).“

# Our approach to quality

## AQR team report and findings

### **Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets**

#### **How we have addressed this area as a firm**

To address this finding, we have done, or plan, the following:

- We refreshed our Impairment Centre of Excellence ("COE") to establish clear partner leadership and introduced frequent communication touchpoints to share best practice, hot topics and technical updates.
  - We performed a risk focused strategic allocation of impairment specialists for a selection of December 2020 audit engagements, taking into account industry knowledge and experience. Going forward we will seek to involve the EQCR partner to determine whether the allocated specialist should have industry knowledge or whether generalist knowledge would provide an enhanced independent challenge to an industry focused engagement team.
  - We will update our impairment guidance notes and consultation document to include specific risk criteria which require further discussion with a panel of specialists, including, but not limited to, where the audit team develop their own model or where cashflow forecasts extend beyond a commonly used period.
  - The launch of the Digital Blueprint project management tool will assist teams in prioritising their time across all areas of the audit.
  - We will hold workshops with our partners and directors to bring to life the common causes that have led to FRC findings and to ensure greater consistency in expectations in respect of the expected depth of review.
  - We have introduced a new coaching program to support the development of primary reviewing skills and to identify any reviewing skills gaps which need addressing.
- To respond to the poor quality and untimely preparation of information by the company for audit, we expect, where appropriate, to increase the communication with management and those charged with governance so that there are clearer expectations in respect of the quality of information prepared for audit.
  - We have updated our impairment template memo to reflect the most recent inspection findings we will develop additional training materials on hot topics and areas of regulatory focus, for example, guidance to assist in the challenge of cash flow assumptions and cost reduction initiatives.
  - We also developed a new template to support teams in auditing accounting estimates in response to the requirements of ISA (UK) 540 revised 'Auditing Accounting Estimates & Related Disclosures'.

# Our other responsibilities explained

## Fraud responsibilities and representations



### 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. 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.

### Required representations:

We have asked the Audit & Governance Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Council.

We have also asked the Audit & Governance Committee to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in the completeness of Creditors and management override of controls as a significant audit risk.

During course of our audit, we have had discussions with management and those charged with governance, with no significant issues identified.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit & Governance Committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

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