



## **AUDIT AND GOVERNANCE COMMITTEE**

**Meeting: Monday, 11th September 2023 at 6.30 pm  
in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP**

### **ADDENDUM**

The following item although provided for on the agenda front sheet was not available at the time of dispatch:

<b>9.</b>	<b>AUDIT PLAN - 2021/22 STATEMENT OF ACCOUNTS' (PAGES 5 - 42)</b> To consider the Audit Plan as presented by the Council's External Auditor.
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Yours sincerely

**Jon McGinty**  
**Managing Director**

## 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 further details and enquiries about this meeting please contact Tanya Davies, 01452 396125, [tanya.davies@gloucester.gov.uk](mailto:tanya.davies@gloucester.gov.uk).

For general 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.

#### **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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## DRAFT Planning report to the Audit & Governance Committee for the year ending 31 March 2022

Issued on 8 September 2023 for Audit & Governance Committee meeting on 11 September 2023

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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 2021/22 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.

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### **Audit Plan**

We have updated our understanding of the Council including discussion with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council 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.

### **Significant Audit Risks**

Although our risk assessment procedures are on-going, we have taken an initial view as to the significant audit risks the Council faces. These have been identified as:

- Capital expenditure; and
- Management Override of Controls.

In addition, we have identified other areas of audit focus in relation to;

- pension liability valuation; and
- property valuation.

### **Cyber incident**

The cyber incident at Council occurred during December 2021 which had impact the financial systems of the Council. Our risk assessment procedures regarding this event are still on-going and as part of our audit process, we will consider the consider below;

- Financial and operational impacts on the Council due to this event and how these are managed;
- Evaluation of the controls / systems in place to prevent the similar incidents in future;
- Assess the impact on audit procedures; and
- Evaluation of the balances on financial statements related to cyber attacks i.e. provisions and contingent liabilities and additional expenses related to cyber attack.

### **Our Commitment to Quality**

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

**Michelle Hopton**  
**Audit Lead**

# Responsibilities of the Audit & Governance Committee

## Helping you fulfil your responsibilities

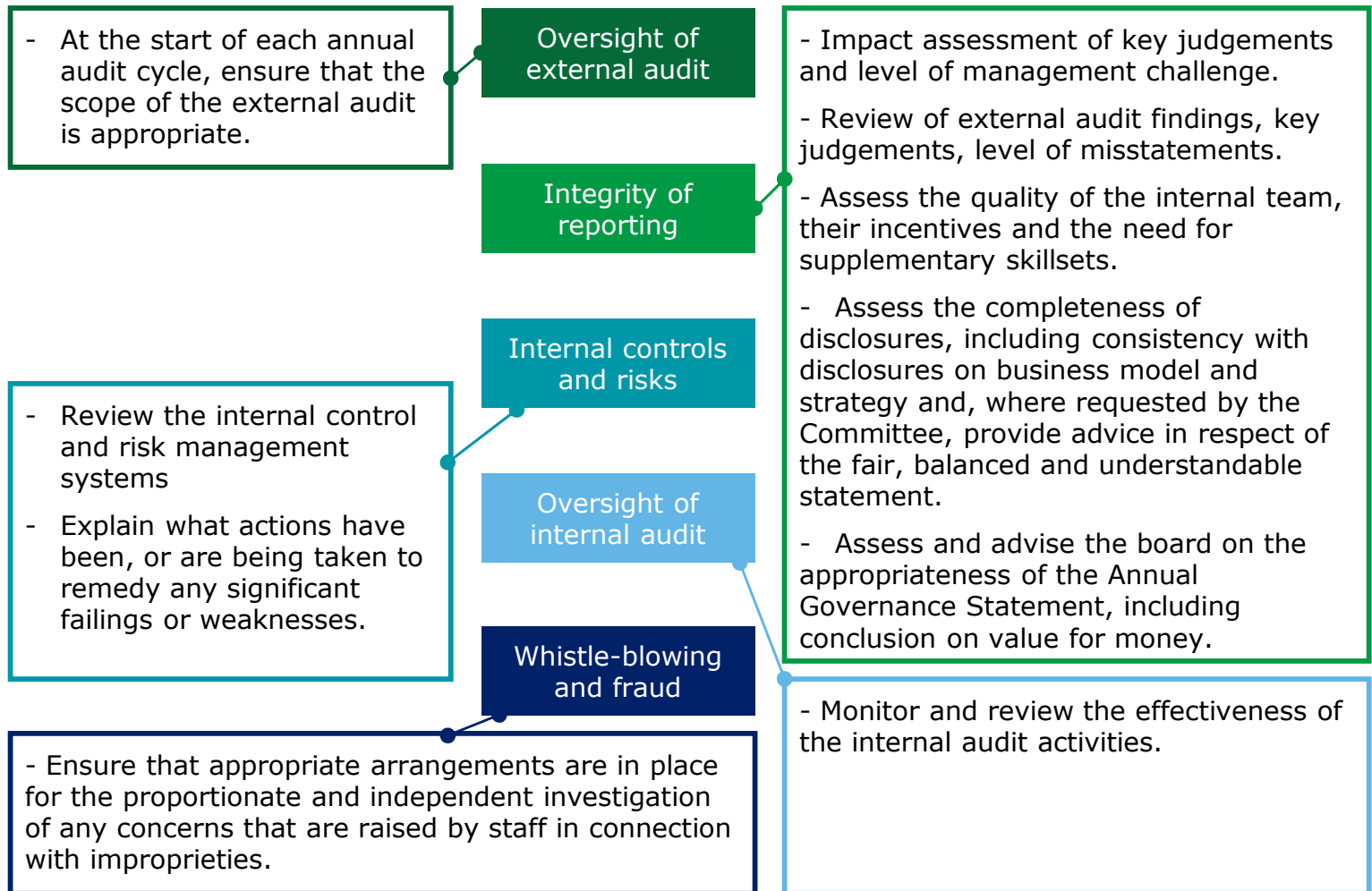
Why do we interact with the Audit & Governance Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

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.





# Your control environment

## What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

### Responsibilities of management

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibilities of the Audit & Governance Committee

As previously noted in the Responsibilities of the Audit & Governance Committee on page 4, the Audit & Governance Committee is responsible for:

- Reviewing internal financial controls and internal control and risk management systems (unless expressly addressed by a separate risk committee).
- Monitoring and reviewing the effectiveness of the internal audit function; where there isn't one, explaining the absence, how internal assurance is achieved, and how this affects the work of external audit.
- Reporting in the annual report on the annual review of the effectiveness of risk management and internal control systems.
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

### FRC guidance on good practice

The FRC, in its Review of Governance Reporting, issued November 2021, has identified good practice as including a detailed description of the process for reviewing the effectiveness of risk management and internal control systems and clarity on what the outcome of the review. This would include whether any weaknesses or inefficiencies were identified and explanations of what actions the board has taken, or will take, to remedy these.

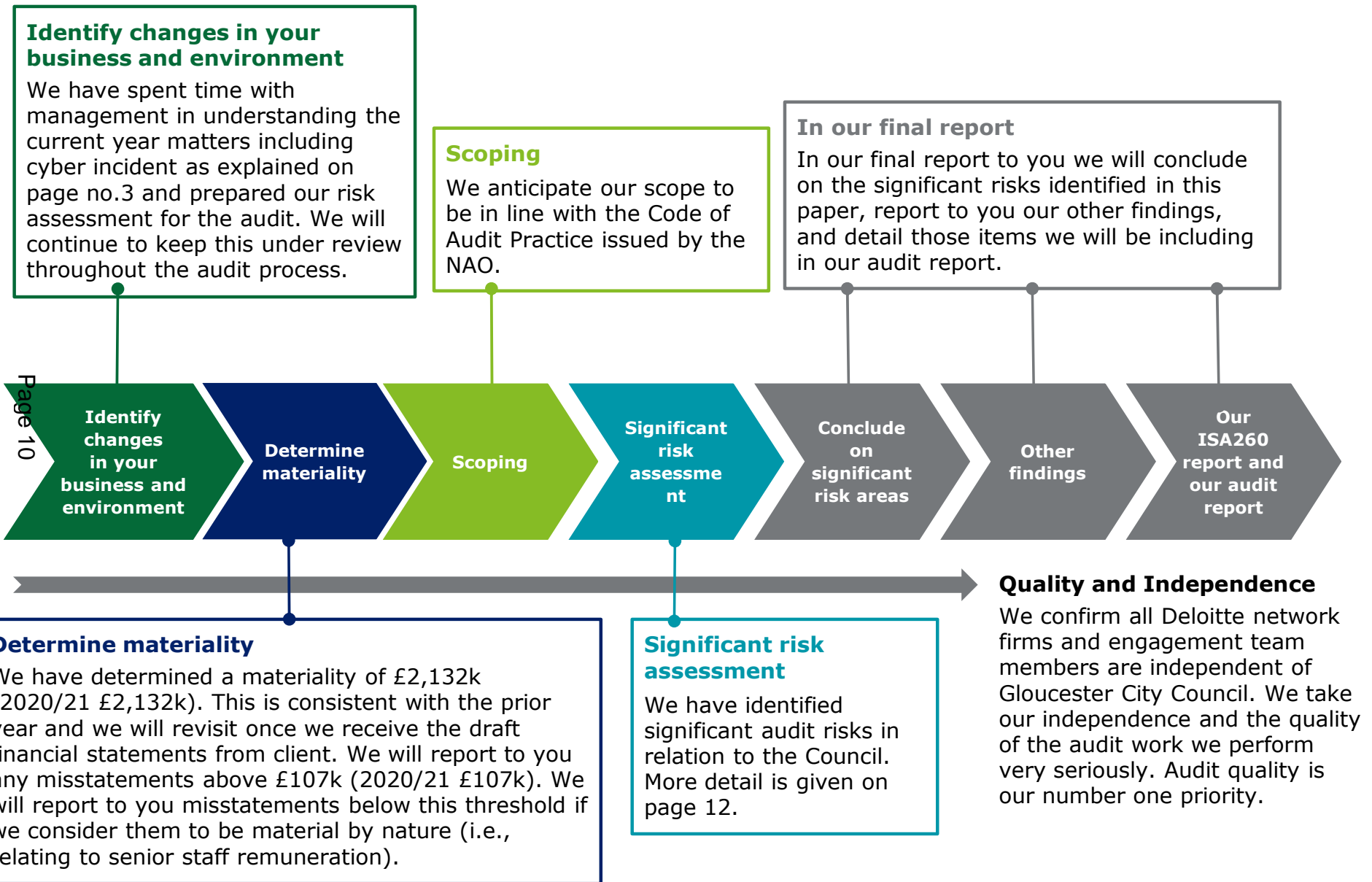
### Performance materiality



We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality. Please refer to page no. 11 for details.

# Our audit explained

## We tailor our audit to your business and your strategy



# 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 consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. In accordance with Code of Audit Practice 2020 and related Auditor Guidance Note 03, 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);

To perform this work, we are required to:

- Obtain an understanding of the Council's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Council's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

# 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.

Obtain and refresh our understanding of the Council and its environment including identification of relevant controls

Obtain and refresh our understanding of the Council and its environment including identification of relevant controls

Carry out design and implementation work on relevant controls

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

# Scope of work and approach

## Our approach

### **Value for Money and other reporting**

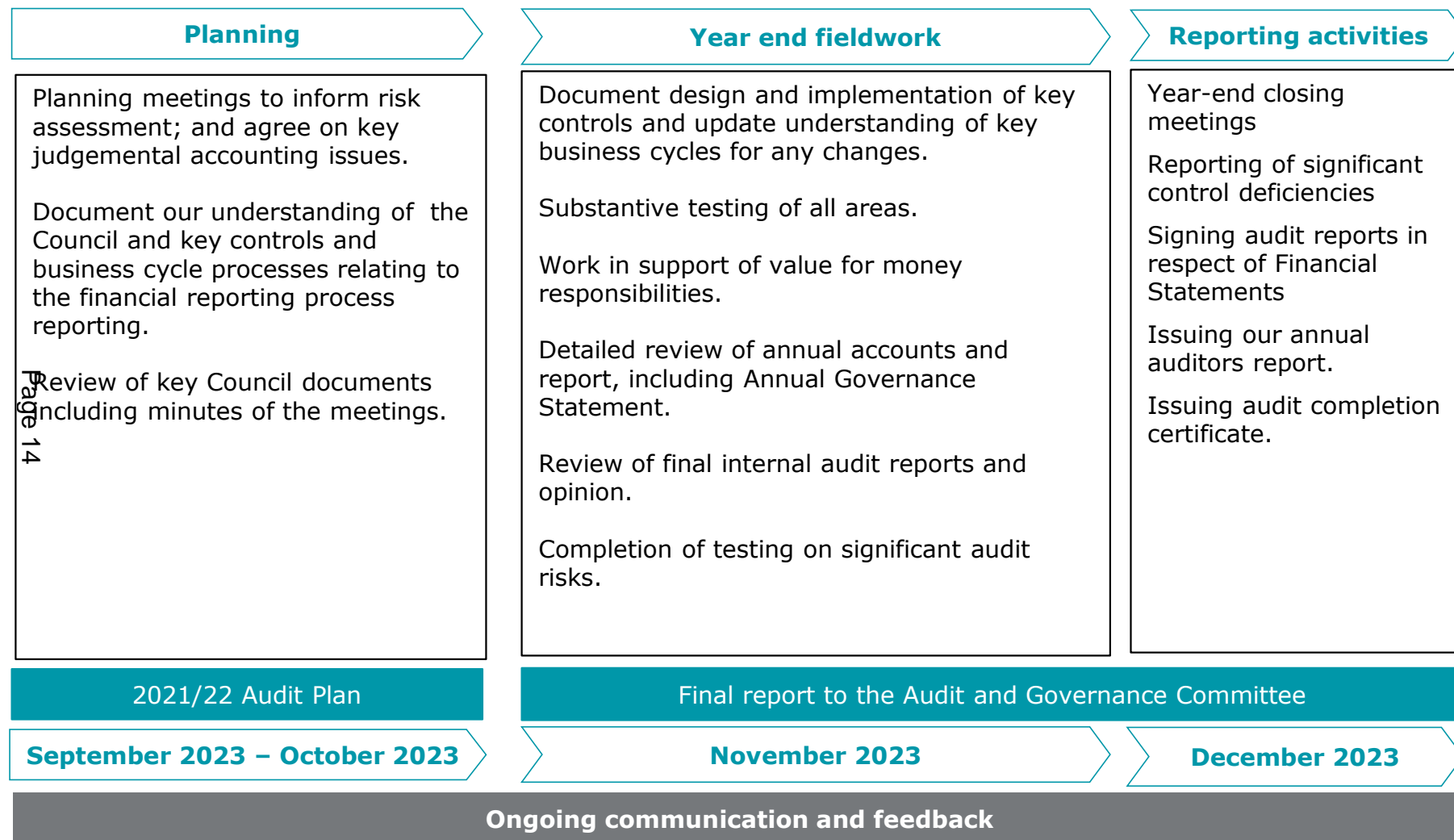
The Code of Audit Practice requires us to report by exception in our audit report:

- if we have reported any significant weaknesses in 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); or
- if we identify any matters that indicate the Governance Statement does not comply with the CIPFA guidance, or is misleading or inconsistent with information of which we are aware from our audit. We are not required to consider, nor will we consider, whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

# 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.



The above timetable is subject to receipt of the required information / evidences Within agreed time frames. We will further confirm to the Audit and Governance Committee during subsequent meetings if there are any delays in completion of our procedures which can impact the above timetable.

# Materiality

## Our approach to materiality

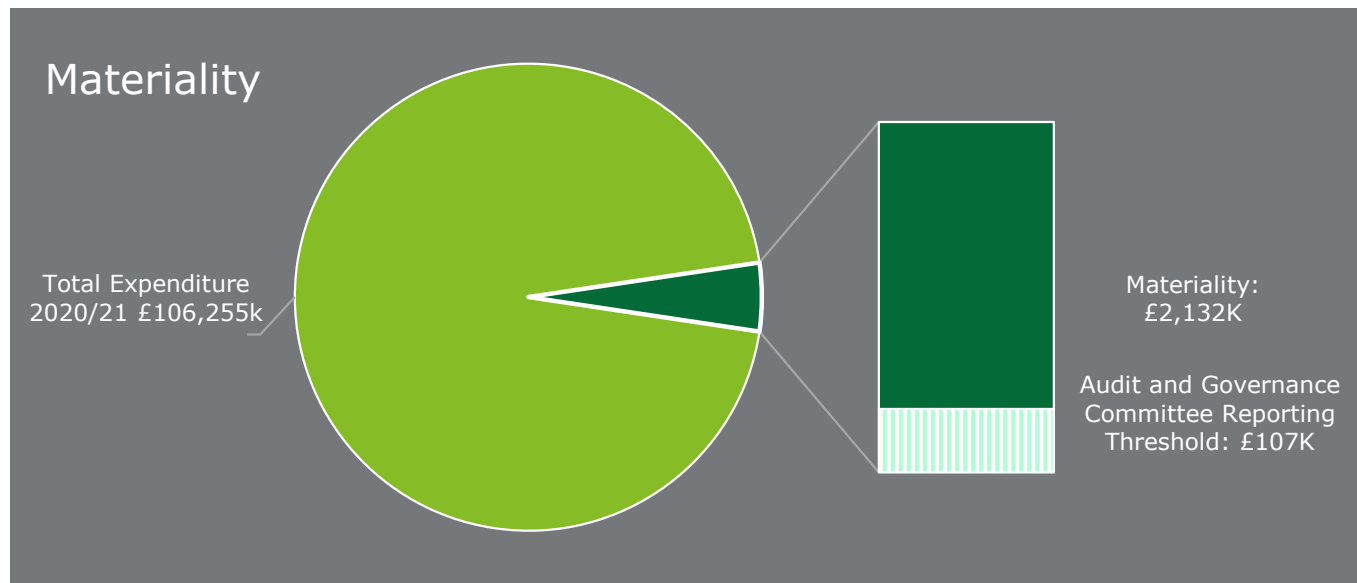
### Basis of our materiality benchmark

- The audit lead has determined materiality as £2,132k (2020/21 £2,132k), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- In determining the materiality, we have used 2% of the Council's expenditures for the year 2020/21 (2020/21: 2% of the total actual expenditures).

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of £107k (2020/21 £107K).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

**Note:** We have not yet received the draft financial statements from the Council and management is still working on this. The above materiality amount is consistent with the prior year. We will revisit and update the Audit and Governance Committee if there is any change in the materiality amount once the draft financial statements are received.



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.

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### Expected principal risks

- Economic uncertainty
- Future level of funding

### IAS 1 Critical accounting estimates

- Pension liabilities
- Useful lives and valuation of property assets

### Changes in your business and environment

No significant events noted except for the cyber incident as explained on page no. 3.

### Deloitte view

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









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

We have rebutted the risk of fraud in revenue recognition as the Council is mainly funded from specific government grants, Council Tax and Non-Domestic Rate Precepts, where no complex estimates or judgements are involved.

Consistent with the prior year, we have not considered valuation of the pension fund liabilities as a significant risk given that both the Goodwin and McCloud items were immaterial in the prior years with no expectation for their impact to differ in the coming year and we had not identified any significant issues / misstatements during the prior years.



# 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.
Capital expenditure			D+I			14
Management Override of Controls			D+I			15

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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 – Capital expenditure

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**Risk identified** 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 capitalisation of expenditure.

As per the Capital Analysis Report, the Council's capital expenditures during 2021/22 were £23,968k (2020/21 £3,777k). The increase in capital expenses is mainly related to development of Kings Quarter – The Forum project.

There is an element of judgement in applying the relevant capitalisation criteria for expenditure. We therefore consider that there is an incentive for revenue expenditure to be capitalised so that this expenditure does not impact the statement of comprehensive income in one year, but is instead spread over a number of years through the depreciation charges in an attempt to report a more favourable year end position.

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

- We will assess the design and implementation of the key controls in place around the capitalisation of costs.
  - We will perform test of details of capital expenditures during the year 2021/22 on a sample basis to confirm that the capitalisation criteria has been met and complies with relevant accounting requirements.
  - We will identify the journals of increased audit interest within capital expenditure to ensure there are no errors that may result in material misstatement. The appropriateness of these journals would then be assessed through detailed testing.
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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: capital expenditure and management override of controls. These are inherently the areas in which management has the potential to use their judgments 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:

**Journals**

- We will test the design and implementation of controls in relation to journals.
- We will make 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 will use computer-assisted profiling of all journals posted during the year to identify journals of increased audit interest. The appropriateness of these journals will then be assessed through detailed testing.

**Significant transactions**

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

**Accounting estimates**

- We will assess the design and implementation of the controls relating to key accounting estimates, in accordance with ISA 540.
  - We will review accounting estimates for biases including capital expenditure, that could result in material misstatements due to fraud.
  - We will review the accuracy of prior year estimates.
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# Other Areas of Audit Focus

## Pensions Liability Valuation

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**Risk identified** The Council are part of the Local Government Pension Scheme operated by Gloucestershire County Council. The Code requires that their year end carrying value should reflect the appropriate fair value at that date. The pensions valuation is an area of audit interest due to the material values attached to the valuations and disclosures in the financial statements.

Our risk assessment procedures for pension liability valuation are still on-going. However, we will inform Audit and Governance Committee in upcoming meetings if there is any change to the risk related to pension liability valuation.

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**Our response**

- We will obtain an understanding of the design and implementation of the key controls in place in relation to data passed to the actuary and review of the assumptions by the Council;
- We will evaluate the competency, objectivity and independence of the Council's actuarial specialists;
- We will utilise our Deloitte Pensions specialists to benchmark the assumptions and methodologies used;
- We will review the pension related disclosures in the financial accounts;
- We will consult with our internal pension specialists and assess if specific testing is required on a sample of the pension assets; and
- We will request an IAS19 letter from the pension fund auditors.

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# Other Areas of Audit Focus

## Property valuation

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**Risk identified** Our risk assessment procedures are still on-going for property valuation. However, consistent with prior year we have considered property valuation as an area of audit interest as the valuations are usually material and involve specialised assumptions. The risk classification is not changed from prior year and its still not considered this as significant risk as valuation are performed by an independent expert where the risk of fraud is relatively less.

Upon completion of our risk assessment procedures, we will inform Audit and Governance Committee if there is any change to the risk classification related to property valuation.

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**Our response**

- We will test the design and implementation of the key controls in place in relation to the valuation of property.
- We will evaluate the competency, objectivity and independence of the Council’s valuation specialists.
- We will involve our valuation specialists, Deloitte Real Assets Advisory “DRAA”, to review and challenge the appropriateness of the assumptions used in the year-end valuation on sample basis.
- We will review the mathematical accuracy of the revaluation workings in line with ISA540 requirements.
- We will review the assets not revalued in current year to assess if their carrying value is best representative of their fair value.
- We will review the presentation of revaluation movements and impairments, taking into account revaluation reserves for assets, and the disclosures included in the financial statements.
- We will test the sample of inputs used in the valuations to their related supporting evidences.

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# Value for Money

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. In accordance with Code of Audit Practice 2020 and related Auditor Guidance Note 03, 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 VFM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment, and we will report to a Audit and Governance Committee on any matters arising from this work. Due to the timing of this meeting, this has not been possible to complete prior to the issue of this paper, and we will report to a later Audit and Governance Committee on any matters arising from this work.

# 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.

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### 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 | 8 September 2023

# 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 risks of material misstatement due to fraud in capital expenditure, and management override of controls.
- 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.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

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### **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.

# Fraud responsibilities and representations

## Representations

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

- 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.

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### **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:

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## Independence confirmation

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 2022 in our final report to the Audit & Governance Committee .

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## Fees

Details of the fees proposed for the period have been presented separately on the next page. There are no non-audit fees.

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## Non-audit services

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.

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## Relationships

We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

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# Independence and fees

The professional fees expected to be charged by Deloitte LLP in the period from 1 April 2021 to 31 March 2022 are as follows:

	Current year £ (excluding VAT)	Prior year £ (excluding VAT)
<b>Gloucester City Council Financial Statements</b>		
Scale fee for the audit of Financial statements	48,857	48,857
Change to scale fee to reflect increased audit costs and nature of the council*	4,795	4,795
VFM	15,000	15,000
Audit over-runs and other adjustments**	TBC	22,500
Scope changes (Impact of 540)	5,000	-
<b>Total fees</b>	<b>TBC</b>	<b>91,152</b>

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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.

\*\* The prior year audit over-runs and other adjustments has been agreed with management (Circa £15K for infrastructure assets additional work and remaining for additional COVID 19 grants related work). We will finalised the current year audit over-runs upon conclusion of audit. There may be over-runs due to additional procedures related to cyber incident.

# Independence and fees

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 Lead; and
- Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

# Revisions to auditing standards coming into effect

## ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

The International Auditing and Assurance Standards Board (IAASB) issued a revised risk assessment standard in December 2019, that takes effect for periods commencing on or after 15 December 2021. For most entities, this will be December 2022 year ends and later. The FRC has adopted the standard in the UK with minimal additions.

*"The IAASB recognizes the importance, and also the complexity, of the auditor's risk assessment process"*

IAASB's basis for conclusions, ISA 315

The revision was made to respond to challenges and issues with the current standard and requires a more robust risk identification and assessment. We had already incorporated many of the changes into our methodology in advance of the standard being introduced, but we summarise on the next few slides some of the areas where this may impact our audit.

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Area of change	Impact on our audit	Impact on the entity
New requirement to evaluate the 4 entity-level components of internal control	<p>Whilst we have always been required to gain an understanding of the entity and its environment, including its internal controls, the new standard is more prescriptive on the need to go further and evaluate the 4 entity level controls components: the entity's control environment, risk assessment process, monitoring of internal control, and information system.</p> <p>This could lead to an increase in the number of relevant controls.</p>	<p>You will need to consider the adequacy of your entity-level controls, and documentation thereof.</p> <p>You should also expect more granular inquiries regarding the control environment.</p>
Enhanced consideration of the types of relevant controls	<p>Overall we expect to identify an increased number of relevant controls, particularly for controls designed to address risks at the higher end of the spectrum of inherent risk and controls over reconciliations. Where new relevant controls are identified, we may also identify control deficiencies and need to consider the effect of these.</p>	<p>You should expect more challenge of controls, particularly over complex accounting estimates, financial reporting and complex or highly automated business processes.</p>

# Revisions to auditing standards coming into effect

## ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement

Area of change	Impact on our audit	Impact on the entity
Enhanced understanding of IT and General IT controls	<p>As we identify more relevant controls, it is likely there will be more relevant IT controls (e.g. automated controls) which themselves rely on underlying General IT Controls (GITCs).</p> <p>We may need more IT specialist involvement to gain an enhanced understanding of IT controls and GITCs, particularly where there are a high volume of automated transactions in the entity. Similarly, where new IT systems come into scope, the likelihood is that there will be an increase in the number of deficiencies identified and action will be needed to determine the appropriate response.</p>	You should expect more challenge over the effectiveness of your GITCs, including how these are monitored.
New approach to scoping account balances, classes of transactions and disclosures	We may now identify some account balances as “material but not significant” where we do not identify a risk of material misstatement, but where we are required to perform some substantive testing.	We may need to perform more substantive testing, where previously there was no separate category of material but not significant.
Revised definition of a significant risk, focused on risks at the upper end of a spectrum of inherent risk	We do not anticipate there being a significant increase in the number of significant risks identified, but where there are more material judgements or estimates being made and a significant risk has not been identified previously, we may conclude there is a significant risk.	You should expect more challenge on audits where before there were no significant risks beyond management override of controls.
Stand back requirement and increased focus on professional scepticism	Our audit approach already acknowledges that risk assessment is an iterative process as well as emphasising the importance of professional scepticism. We will use this as an opportunity to challenge ourselves on the evidence that professional scepticism has been applied through the risk assessment processes, including as part of the stand back assessment.	You should expect more challenge of the evidence provided in respect of our risk assessment, including revisiting this towards the concluding stage of the audit.



# Revisions to auditing standards coming into effect

## ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The Financial Reporting Authority (FRC) issued a revised fraud standard in May 2021, that takes effect for periods commencing on or after 15 December 2021 (i.e. December 2022 year ends).

Many of the revisions provide increased clarity as to the auditor's obligations and codify existing expectations or best practice. The updates to the ISA do not include any changes relating to proposals in the Government's White Paper regarding auditor reporting on a statement by directors on the steps they have taken to prevent and detect material fraud.

We summarise on the next few slides how this will impact our audit.

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Area of change	Impact on our audit	Impact on the entity
Fraud inquiries	<p>In addition to the pre-existing required enquiries, we are now explicitly required to make inquiries of management or others at the entity who handle whistleblowing.</p> <p>We also required to discuss the risks of fraud with those charged with the governance, including those risks specific to the entity's business sector.</p>	<p>You should expect further challenge in relation to who we speak to in relation to fraud at the entity, including more focus on entity/sector specific risks.</p>
Engagement team discussions	<p>The revised ISA (UK) emphasises that the pre-existing audit team fraud discussion should explicitly include an exchange of ideas about fraud, incentives to commit fraud, and how management could perpetrate and conceal fraud.</p> <p>There is also an explicit requirement for the engagement partner to consider whether further fraud discussions should be held at later stages of the audit.</p>	<p>You should expect increased challenge of the controls and processes in relation to the entity's own fraud risk assessment and the documentation of that assessment.</p>

# Revisions to auditing standards coming into effect

## ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Area of change	Impact on our audit	Impact on the entity
Identified or suspected fraud by a key member of management	The revised ISA (UK) clarifies that if we identify or suspect fraud by a key member of management this may be qualitatively material.	Further challenge in relation to identified or suspected fraud by a key member of management.
Involvement of specialists Page 34	<p>We are explicitly required to determine whether the engagement team needs specialised skills and knowledge:</p> <ul style="list-style-type: none"> <li>• To perform the fraud risk assessment procedures, to identify and assess the risk of material misstatement due to fraud, to design and perform audit procedures to respond to those risks or to evaluate the audit evidence obtained; or</li> <li>• Where a misstatement due to fraud or suspected fraud is identified.</li> </ul>	There is likely to be more interaction with fraud specialists as part of our planning procedures.
Journal entry testing	<p>We were already required to test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and make inquiries of personnel.</p> <p>The revised ISA (UK) clarifies that our selection process should consider specifically both automated and manual journals, consolidation adjustments (in the preparation of group financial statements), and post-closing entries.</p> <p>The standard also emphasises that when making inquiries about inappropriate or unusual activity relating to the processing of journal entries and other adjustments, we should make inquiries of individuals with different levels of responsibility in the financial reporting process.</p>	<p>You should expect more challenge on GITCs over the identification and classification of automated and manual controls, especially where there are IT deficiencies.</p> <p>There will also be more inquiries with people at different levels of responsibility at the entity.</p>

# Revisions to auditing standards coming into effect

## ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

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Area of change	Impact on our audit	Impact on the entity
Representations from those charged with governance	We will request an additional representations from those charged with governance regarding their responsibilities for the prevention and detection of fraud.	You should expect representations from those charged with governance that they believe they have appropriately fulfilled their responsibilities to design, implement and maintain internal control to prevent and detect fraud.

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# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

Audit quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the public interest to deliver confidence and trust in business.

In July 2023, the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2022/23 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, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year's engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairments, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC's website:

[Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council \(frc.org.uk\)](#)

# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

### **The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP**

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

### **Inspection results: review of the firm's quality control procedures**

"This year, our firm-wide work focused primarily on evaluating the firm's: actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

### Improve the effectiveness of the testing of revenue and margin recognition

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

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

- We are establishing a Revenue centre of excellence to support engagement teams in the audit of revenue. The involvement of the centre of excellence will focus on the overall approach to revenue testing, including an end-to-end view of revenue, the risk assessment, planned controls and IT and substantive work and will take place during the key stages of the risk assessment, planning and execution stages of an audit.
- Monthly workshops are held with partners and directors to brief them on the areas of regulatory focus. We also regularly communicate the FRC findings, including those on revenue and margin recognition, to the wider audit practice during the inspection cycle through our weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.
- We held a review of a portfolio of audits in specific industries to evaluate the approach to margin recognition and to ensure teams are consulting with our technical team when required.
- We updated partner and EQCR/EQR review guidance and templates to ensure these reviews considers all revenue testing regardless of risk assessment.
- We have refreshed our internal controls coaching and introduced independent health check reviews on internal controls. Coaching is direct 1-2-1 support tailored to the specific needs of the engagement team. The health check reviews include work performed on controls that address significant, higher and lower risks; and entity level controls, including those relating to revenue.

# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

### Improve the audit of cash equivalents and cash flow statements

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

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

- We continue to hold monthly workshops and share weekly technical emails to brief our people on the areas of regulatory focus. These included a focus on auditing cash and cash equivalents.
- We have issued a 'Getting it right FAQs' in relation to cash equivalents testing, updated to include clarified guidance relating to money market funds and alternative procedures when external confirmations are not requested or received.
- Our Business Unit quality community leads led AQR hot topic reminders workshops and these covered cash findings ahead of reporting season to raise awareness of common pitfalls.
- We have refreshed our cash flow statement work programme and issued reminders requiring its use to all audit practitioners.
- We have assessed the training of audit delivery centres and performed additional training for junior team members in the context of common pitfalls. As part of this, a training module was updated to include a cash testing workpaper exercise as part of the core audit curriculum which will link to the regulatory findings.

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# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

### Improve the consistency of the audit of estimates for certain provisions

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

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

- Our main annual technical training in 2022 included specific training in relation to the audit of complex estimates and provisions and includes scenario examples for auditing management estimates. Our Engagement Team Based Learning in 2022 ("TechEx Teams") included a follow-on session focusing on accounting estimates on a community basis to facilitate sharing of practical examples relevant to community.
- Our annual training for 2023 also included a module on the experienced auditor mindset to support our people in ensuring that audit evidence captures the story of the audit process and challenge therein.
- We have issued new templates and support guidance to assist our teams in auditing complex models and evidencing our 'standback' assessment.
- We regularly communicate the FRC findings, including a focused communication on avoiding the 'assumed knowledge' pitfalls particularly in relation to management estimates, to the wider audit practice during the inspection cycle through our weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.

- Management estimates were included within our 'Key topics for FY23 audits' publication in December 2022 providing key messages and links to supporting materials for all teams ahead of reporting season.



# Our approach to quality

## FRC 2022/23 Audit Quality Inspection and Supervision report

### Enhance the assessment of impairment reversals

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

- We plan to review our impairment specialist consultation policy to assess whether this should include reference to circumstances where an impairment reversal is identified.
- We have updated the impairment consultation memo to include a prompt on reversal of past impairments and ensure this is considered as part of the audit.
- We held briefings within the impairment specialist community on the AQR findings and the expectation that the specialists include impairment reversals in their review scope where a material reversal has taken place.

Page 41 Community Quality Leads are continuously briefed on key findings and reminders to ensure messages are disseminated to more junior grades through busy season including those relating to impairment reversals.

We delivered a Bitesize learning on impairment reversals.

- We issued updated guidance to help company management understand some common questions on application of IAS 36, including impairment reversals.

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