KPMG

External Audit ISA260 Report 2017/18

Gedling Borough Council

July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Gedling Borough Council ('the Authority').

This report covers both our on-site work which was completed in March and June to July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Controls over key financial systems

Based on our testing, the controls over the majority of the key financial systems are sound.

Accounts production

The Authority incorporated a number of measures into its closedown plan to further improve the project management of the complex accounts production process.

The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is sound. We also consider the Authority's accounting practices appropriate.

Financial statements

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

The remaining audit work includes the following matters:

- Final Audit Director review;
- Addressing any remaining audit queries and any further matters arising from our completion procedures;
- General audit file completion and review procedures; and
- Post balance sheet events review up to the date of signing the audit opinion;

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing):

- **Valuation of PPE**
- **Pensions Liabilities**

We have made one recommendation concerning property valuations, which is detailed in Appendix 1.

We have not identified any audit adjustments.

Summary for Audit Committee (cont.)

Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risk:

- **Delivery of Budgets**

See further details on page 18.

Exercising of audit powers

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

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

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. We have utilised our specialist IRM team to undertake testing over the Authority's general ledger system, Agresso, and payroll system, Northgate.

Key findings

We consider that your IT controls are effective overall.

Aspect of controls	Assessment
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

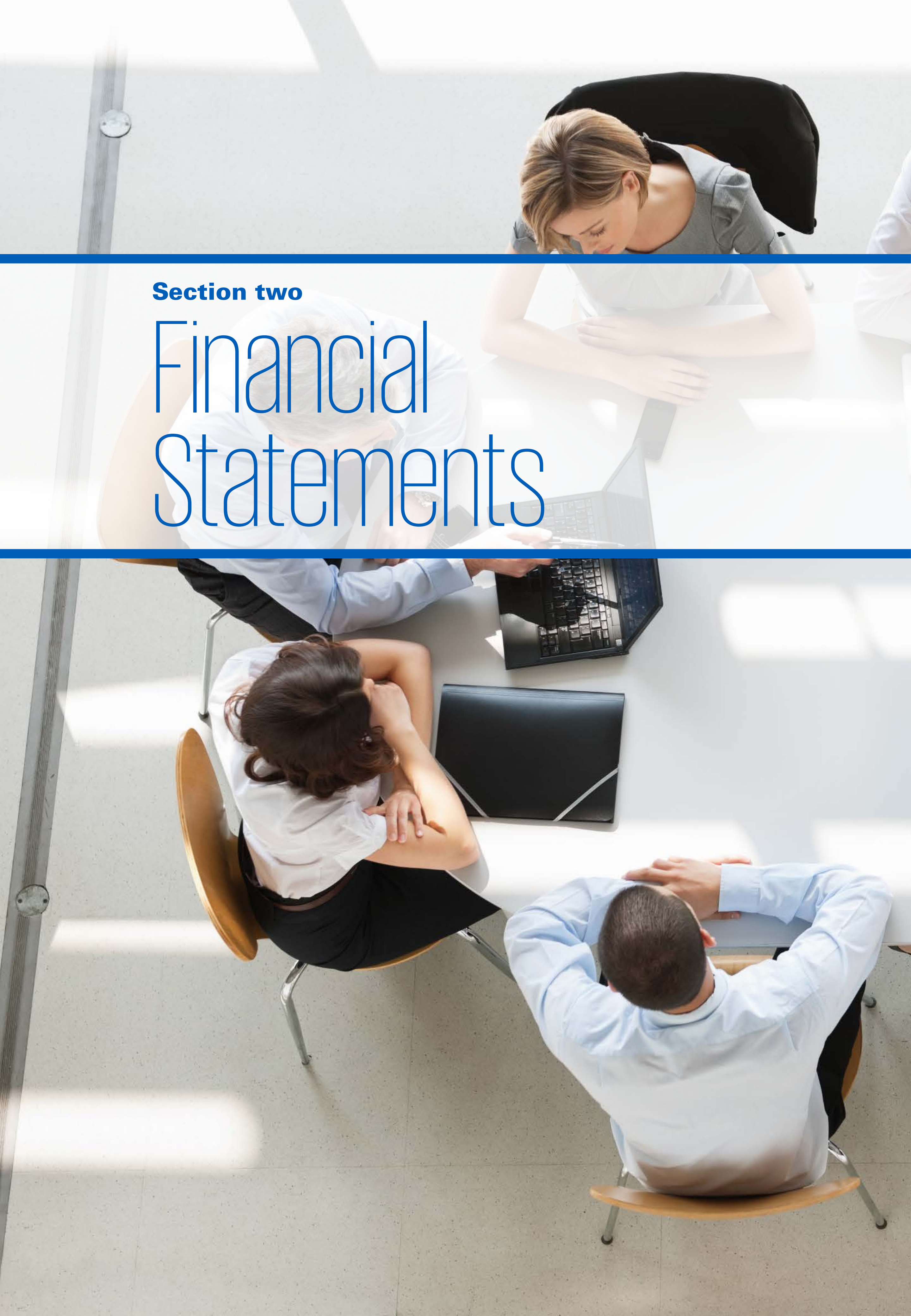
The controls over all of the key financial systems are sound based on our testing.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is sound.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

We consider that the overall process for the preparation of your financial statements is sound. We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 18.

Implementation of recommendations

We raised five of recommendations in our ISA 260 Report 2016/17. The Authority has implemented the majority of the recommendations relating to the financial statements in line with the timescales of the action plan. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the brought forward statutory deadline.

Quality of supporting working papers

We issued our Final Accounts Audit Protocol to Head of Financial Services in May. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by officers, including those who are not part of the Finance team. As a result of this, we expect to complete all of our audit work within the timescales expected.

Land and Building Valuations

At the time of writing this report, we have queries outstanding on our review of land and building valuations, which we are working with officers to resolve.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018, subject to resolving all outstanding queries.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a two year cycle. As a result of this, however, individual assets may not be revalued for over a year.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 31 December, there is a risk that the fair value is different at the year end.

Our assessment and work undertaken:

We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

A KPMG valuer reviewed a sample of valuations. As a result of this work we determined that valuation assumptions fell within an acceptable range.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 12.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Nottinghamshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Our assessment and work undertaken:

We critically assessed the competency, objectivity and independence of the Scheme's actuary.

We reviewed the appropriateness of the key assumptions included within the valuation of the assets and the liabilities, with the use of a KPMG Actuary. Our Actuary also reviewed the methodology applied in the valuation by Scheme's Actuary.

We used the IAS 19 valuation provided by the Scheme Actuary for accounting purposes to ensure that this reconciled to the pension balances in the Authority's financial statements.

We liaised with the auditors of the Nottinghamshire Pension Fund (KPMG) in order to gain assurance that the controls in place at the Pension Fund were operating effectively. This included the process and controls in place to ensure data provided to the Actuary by the pension fund for the purposes of the IAS19 valuation was complete and accurate.

We agreed the estimated movement in the fair value of plan assets during the year included in the IAS 19 Actuarial Valuation as at 31 March 2018 for accounting purposes to the Authority's financial statements.

We found the resulting valuation of the Defined Benefit Pension Scheme Liability to be balanced.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 12 June. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority’s Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

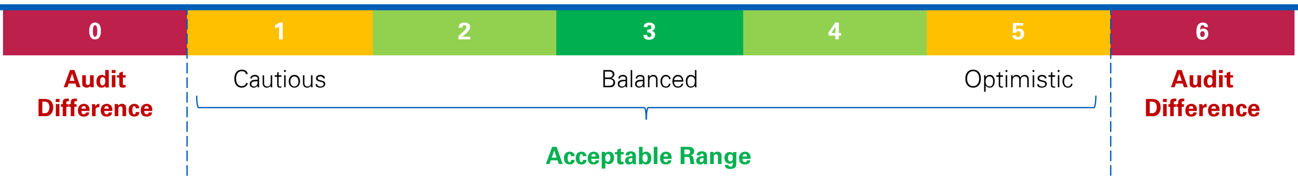
We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years despite the reduced timescale. We did not identify any issues regarding possible increased use of judgement and estimates.

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence



Subjective area	2017-18	2016-17	Commentary
Business Rates provision	3	3	The Authority's provision balance (CY £927k, PY £1,138k) is predominantly made up of the provision for business rate appeals (CY £827k PY £1,038k) representing outstanding business rate appeals. For 2017/18 the Authority has continued to use Local Analyse, an external service, to calculate the balance. The Authority's share of provision for business rates appeals as at 31 March 2018 is £827k, which includes £211k relating to 2017 Valuation. Currently there is no available appeals information from the Valuation Office Agency relating to the 2017 Valuation following the introduction of a new appeals process. We agree that it is prudent to set aside this estimated amount as it is reasonable to assume that there will be successful appeals emerging from the new process. However, in our view, the most appropriate way to do this would be to create a reserve rather than a provision (which requires there to be an obligating event under IAS 37). We recognise that management is not seeking to amend balances inappropriately as creating a reserve would have the same overall impact on the Authority's accounts. Officers have set out to us why they are content that they have met the requirements of IAS 37, and have confirmed that they will continue to review their approach to setting aside resources for potential 2017 appeals as updates are received from the Valuation Office.

Judgements

<table>
<tr><th>Subjective area</th><th>2017-18</th><th>2016-17</th><th>Commentary</th></tr>
<tr><td>Property Plant & Equipment: Non-HRA Assets</td><td>4</td><td>3</td><td>The Authority has utilised an internal valuation expert to provide valuation estimates. We have agreed PPE valuations carried out in 2017/18 back to the internally generated valuation certificates.
Additionally, we have reviewed the instructions provided by the Authority to the Valuer and deem that the valuation exercise is in line with the instructions. We also made inquiries of the Valuer concerning the judgements over the valuations as at 31 March 2018.
In line within accounting standards and the Code, the Authority values its operational land and buildings using either Existing Use Valuation or Depreciation Replacement Cost – depending on the specialised nature of the building.
In response to our recommendation last year, the Authority has undertaken the valuations later in the year, moving from 1 April valuation to the 31 December, meaning that the valuation date is significantly closer to the balance sheet date of 31 March 2018.
A KPMG valuer has reviewed of a sample of valuations, including key assumptions that have been used. The Authority has responded to our requests for additional information in support of the valuations undertaken. For some items in the sample we believe that the Authority's valuations may be toward the optimistic end of an acceptable range, but we are satisfied that taken as a whole, they are reasonable based on the information available.</td></tr>
<tr><td>Valuation of pension assets and liabilities</td><td>3</td><td>2</td><td>At the 31 March 2018, LGPS pension liabilities for the Authority totalled £123.46m (PY £124.55m), and the fair value of pension assets totalled £46.67m (PY £50.35m), resulting in a net LGPS pension liability of £48.61m (PY £52.38m).
The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the Actuary fell within our expected ranges as set our below:
<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>KPMG Range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.55%</td><td>2.51%</td><td>3</td></tr>
<tr><td>Pension increase rate</td><td>2.3%</td><td>2.15%</td><td>2</td></tr>
<tr><td>Salary Growth</td><td>CPI plus 1.5%</td><td>CPI plus 0 – 2%</td><td>3</td></tr>
<tr><td>Life expectancy</td><td></td><td></td><td>2</td></tr>
<tr><td>Males currently aged 45 / 65</td><td>24.8 / 22.6</td><td>23.5 / 22.1</td><td></td></tr>
<tr><td>Females currently aged 45 / 65</td><td>27.9 / 25.6</td><td>25.4 / 23.9</td><td></td></tr>
</table>
We found assumptions to be within our acceptable range. There has been an actuarial gain on the financial assumptions of around £6m, largely due to a fall in the assumptions for pension and salary increases, offset to an extent by a fall in the discount rate assumption.</td></tr>
</table>

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 31 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 3) for this year's audit was set at £0.8 million. Audit differences below £40k are not considered significant.

We did not identify any misstatements. We did however identify a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative Report

We have reviewed the Authority's 2017-18 Narrative Report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Gedling Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Gedling Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

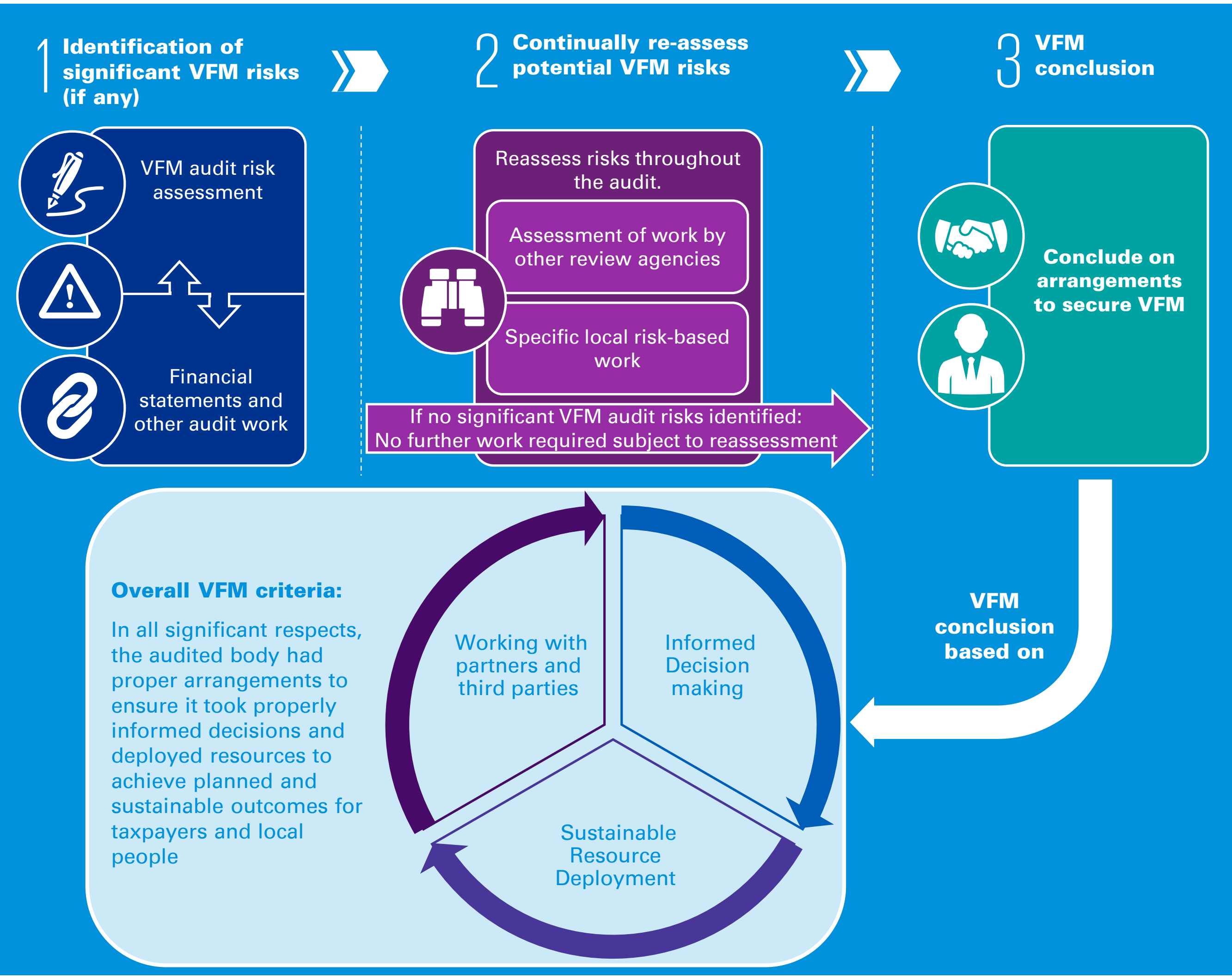
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



1 Identification of significant VFM risks (if any)

VFM audit risk assessment

Financial statements and other audit work

2 Continually re-assess potential VFM risks

Reassess risks throughout the audit.

Assessment of work by other review agencies

Specific local risk-based work

If no significant VFM audit risks identified:
No further work required subject to reassessment

3 VFM conclusion

Conclude on arrangements to secure VFM

VFM conclusion based on

Overall VFM criteria:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people

Working with partners and third parties

Informed Decision making

Sustainable Resource Deployment

Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM area of focus to VFM sub-criteria

VFM area of focus	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets	✓	✓	✓

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18* we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

We have highlighted those risks which were identified after we presented our *External Audit Plan 2017/18* in March 2018.

Risk:

Delivery of budgets

The Authority's net revenue budget of £12.481m was approved by full Council in March 2017. In addition to this planned savings of £1.694m were also approved over the period 2017/18 to 2021/22, of which £532k was approved for delivery in 2017/18.

Planned savings have been set to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.

The forecast as at Quarter 3 projects an underspend of £110,000 in relation to the budget and in terms of savings indicates that £25,000 will not be achieved and a further £21,000 will be delayed until 2018/19. However, this will be fully offset by the early delivery of some proposals, totalling £94,700, which were initially planned for 2018/19.

We noted in our 2016/17 ISA260 document, how the Authority was required to generate a further £1.9m of savings over the medium term (2017/18 to 2020/21), but at the time of writing was in the process of progressing detailed plans.

Our assessment and work undertaken:

The Authority has reported an overall underspend on its net council budget of £42k against its quarter 3 estimate. This is after a transfer to earmarked reserves of £1.2m, and a further £49k transfer to the General Fund balance. This enables the General Fund balance to continue to remain at an acceptable level per the Authority's policy (above 7.5% of net council budget) at £5.9m.

The Authority has a good track record in delivering its budget and corresponding savings programme. Since 2012/13 the Authority has reported delivery of £5.27m of budget savings, a combination of both reducing costs and increasing income. Looking ahead, there is a challenging £1.13m of savings planned for 2018/19, and a further £3.91m of savings planned between 2019/20 to 2022/23. Of the £3.91m savings target, the Authority is yet to fully develop plans for £1.1m of this target. Whilst we recognise that it is becoming more common across the sector to incorporate savings into the MTFP where plans are yet to be fully developed, this inherently increases the risk of these savings not being achieved. The Authority has been transparent in reporting of these challenges and the risks associated with savings targets where no plans exist.

MTFP provides an update across the Authority's three key savings programmes, specifically:

1. The **2014/15 Programme** targeted £2.49m of savings and budget efficiencies between 2014/15 to 2018/19. The remaining elements of the savings programme yet to be delivered total £590k, although delivery is expected to be completed in 2022/23 due to delays in capital receipts.

Specific value for money risk areas (cont.)

Our assessment and work undertaken:

Delivery of budgets (cont.)

2. The **2017/18 Programme** has targeted savings/budget reductions of £1.69m to be delivered between 2017/18 and 2021/22. Reported savings achieved in 2017/18 total £532k. It is estimated that £178k of savings in the initial programme will not be delivered throughout the programme's duration, however the Authority has prudently included a risk provision of £140k so the net impact is £38k.
3. The **2018/19 Programme** was originally set-up with a savings target of £1.9m, to be delivered between 2018/19 to 2021/22. We reported in our prior year ISA260 how the Authority was yet to fully develop plans. Currently the Authority has incorporated £1.33m of savings into the MTFP from the 2018/19 Programme, thus representing a shortfall of £567k. This shortfall has been communicated clearly to Members. In response the Authority has agreed a further savings target of £1.1m for 2019/20 onwards where there are no detailed plans developed, which is indicative of the challenges to deliver savings whilst managing the potential detrimental impact on services.

As part of our work we reviewed savings plans for both 2017/18 and 2018/19 and were satisfied that these appeared reasonable and provided sufficient detail to lend credibility to their achievement. The plans predominantly fall into cost reductions or income generation, with a small part resulting from proactively managing existing contracts. Savings are profiled on an annual basis. As highlighted above it is important that the Authority works hard to develop savings plans to underpin the £1.1m savings target from 2019/20, well in advance of the budget approval process in February and March next year.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified one issue. We have listed this issue in this appendix together with our recommendation which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing this risk, including the implementation of our recommendation.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: 0	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: 1	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 0

No.	Risk	Issue & Recommendation	Management Response
1	2	***Property valuations and valuation of the Civic Centre*** During the audit we encountered some difficulties in corroborating the basis of valuation used in a sample of valuations reviewed. Although sufficient evidence was ultimately obtained to support the valuation used, we noted the following: • The quality of working papers provided to us in support of the valuations lacked detail regarding the property condition and rationale for why the comparable evidence used to support the valuation was appropriate; • We could not see evidence of the valuations being subject to quality assurance; • The Civic Centre has not been subject to an independent external valuation in the recent past. ***Risk*** The Authority could face increased risk of valuations not being appropriate in the future.	*Accepted.* *The property valuation process will be reviewed to ensure valuations are fully documented and evidenced in supporting working papers and a quality assurance process will be implemented. An external valuation of the Civic Centre will be obtained for the 2018/19 valuation.* ***Responsible Officer*** *Service Manager, Property* ***Implementation Deadline*** *31 December 2018*

Appendix 1:

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
	🟨	***Recommendation*** The Authority should take steps to improve the quality of working papers that are maintained in respect of property valuations. A process for quality assuring the work should also be introduced. Given the significance of the Civic Centre building, we further recommend, in line with good practice, that the Authority obtain an external valuation of the Civic Centre from an appropriately qualified and experienced RICS Registered Valuer.	

Appendix 2:

Follow-up of prior year recommendations

The Authority has progressed all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2016/17 and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	5
Implemented in year or superseded	4
On-going	1

No.	Risk	Issue & Recommendation	Management Response	Status as at 18 July 2018
1	2	**Savings Plans** The Authority updates its Medium Term Financial Plan (MTFP) on an annual basis, the most recent, for 2017/18 –2021/22, was presented to Council on 1 March 2017. This annual refresh of the MTFP, re-assesses budgets, progress on savings, and emerging risks facing the Authority. The most recent MTFP has highlighted that the Authority needs to deliver a further £1.9m of cumulative efficiency savings from 2018/19 onwards. The Authority has a good track record of both delivering and monitoring its savings plans, however at present has not worked up detailed plans for the £1.9m, which inherently presents a risk to achievement. The Authority is cognisant of these challenges as reported to both Cabinet and Council and is subsequently driving initiatives, including a commercialism agenda, housing development and also a leisure strategy. If these savings are realised, there remains a planned reduction in the General Fund balance from £5.01m in 2017/18, reducing to £1.59m by 2020/21. ***Recommendation*** The Authority should continue to refresh savings plans to ensure they are achievable as well as minimise overspends against budget to reduce further savings required.	Accepted The development of the detailed plans for delivery of the £1.9m savings target for 2018/19 to 2020/21 is currently underway and will be presented to Council for approval in March 2018. The ongoing monitoring and refresh of approved savings plans and budgets is a well-developed and embedded process with regular quarterly performance and budget setting reports submitted to Cabinet, as evidenced by the delivery of previous budget reduction programmes. This monitoring process will continue to ensure saving plans are constantly refreshed and targets are achieved within required timescales. ***Responsible Officer*** Service Manager, Financial Services ***Implementation Deadline*** On-going	**On-going** The Authority has delivered an underspend for 2017/18, whilst making a contribution to earmarked reserves. Currently the Authority has incorporated £1.33m of savings into the MTFP from the 2018/19 Programme, thus representing a shortfall of £567k against the original £1.9m plan. This shortfall has been communicated clearly to Members. In response the Authority has agreed a further savings target of £1.1m for 2019/20 onwards where there are no detailed plans yet developed, which is indicative of the challenges to deliver savings whilst managing the potential detrimental impact on services.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 18 July 2018
2	3	**PPE Valuation** In line with the previous year, the Authority's in-house valuer revalued the Authority's land and buildings on 01 April 2016, and then carried out a further review on 31 March 2017 to assess if there had been any material movements in the valuations. ***Recommendation*** In line with best practice, the Authority should consider undertaking land and building valuations to coincide with the balance sheet date, which we also consider will help ensure accurate and timely valuations are reflected on the year-end balance sheet.	Accepted The process and timing of the land and property valuations will be reviewed. ***Responsible Officer*** Service Manager, Property ***Implementation Deadline*** 31 March 2018	**Implemented** The Authority carried out its valuations for 2017/18 on 31 December 2017
3	2	**Discretionary Redundancy Costs** Statutory redundancy payments are based on a number of weeks' pay, the actual number being determined in law by a combination of age and length of continuous service. The Authority has in place a policy which allows for additional payment up to the same amount again as the statutory payment, in effect doubling the redundancy payment to be made. Given the financial challenges facing the Authority in the medium term, challenge should be applied to discretionary redundancies, and evidence retained to support why it is considered to offer value for money. ***Recommendation*** The Authority should consider its policy for discretionary redundancy and ensure discretionary redundancy is appropriately challenged and evidence retained which sets out why discretionary redundancy is considered to represent value for money.	Accepted The policy for redundancy payments will be reviewed. ***Responsible Officer*** Service Manager, Organisational Development ***Implementation Deadline*** 31 March 2018	**Implemented** Policy reviewed in July 2017. The policy will again be reviewed once the regulations relating to "exit cap" payments are clarified by the government and any changes proposed at that time will be considered through appropriate committees of the Council.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 18 July 2018
4	2	**Pension Strain Costs** To meet the financial challenges facing the Authority, there were two key department restructures undertaken in year, Audit and Asset Management, and Housing Management Arrangements, both of which led to subsequent redundancies as the Authority looks to streamline services and reduce costs. Whilst we could see that all such decisions were subject to correct approval, our review of the consultation papers for both restructures noted that the papers did not contain estimates for pension strain costs associated with potential redundancies. This was due to the redundancy proposals being incomplete at the time of writing as posts remained open for redeployment. ***Recommendation*** As part of future restructures, documentation should be retained which evidences that decision makers were provided with details of the final pension strain costs associated with restructures prior to final approval.	Accepted ***Responsible Officer*** Service Manager, Organisational Development ***Implementation Deadline*** Immediate	**Implemented** Process reviewed to ensure estimated pension strain costs included within business cases prior to approval.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at 18 July 2018
5	2	**IT Controls** As part of our review of your General IT controls, we identified three IT issues as follows: — The Authority does not perform a regular review of user access to Agresso (the general ledger) and Northgate (the payroll system); — There are weak password settings on Northgate (the payroll system); and — We identified two redundant powerful accounts on Agresso. Despite the gaps in the control environment, we identified the following compensating controls: — There were appropriate controls over starters and leavers on Agresso and Northgate; — There are strong network access password parameters; and — None of the redundant powerful user accounts accessed Agresso in year. As all the controls had mitigating factors, there was no impact on our audit, however, strengthening these controls would be appropriate. ***Recommendation*** The Authority should review the issues identified above, and address them appropriately, considering putting the following in place: — Performing an annual review of all Agresso and Northgate user accounts and the level of access granted; — Reviewing powerful user accounts in Agresso, and considering whether these accounts are required. Where the accounts are required, consider locking the accounts until they are required; and — Increasing the complexity of password controls to access the Northgate system.	Accepted ***Responsible Officer*** Service Manager, Financial Services ***Implementation Deadline*** Immediate	**Implemented** No issues identified as part of our IT Controls work for 2017/18. The Authority has notably taken action to ensure that a user access review has taken place over Agresso users in year.

Appendix 3:

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in March 2018.

Materiality for the Authority's accounts was set at £800k which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £40k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 4:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted audit differences.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 5 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Appendix 5:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF GEDLING BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Authority for significant professional services provided by us during the reporting period in Appendix 6, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	42,570	43,364
Total audit services	**42,570**	**43,364**
Mandatory assurance services	10,562	10,313
Total Non Audit Services	**10,562**	**10,313**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. We confirm that the only non-audit service we have provided in year is in regards to the mandatory housing benefits assurance work.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the table below.

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	10,562	10,313

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Appendix 5:

Declaration of independence (cont.)

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our fee for the audit is £42,570 plus VAT (£43,364 in 2016/17).

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for September 2018. The planned scale fee for this is £10,562 plus VAT (£10,313 in 2016/17).

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee Gedling Borough Council	42,570	42,570
Additional fee in relation to additional audit work	Tbc*	794
Total audit services	**42,570**	**43,364**
Mandatory assurance services		
Housing Benefits Certification (work planned for September 2017)	10,562	10,313
Total mandatory assurance services	**10,562**	**10,313**
Total audit-related assurance services	**0**	**0**
Total non-audit services	**10,562**	**10,313**
Grand total fees for the Authority	**53,132**	**53,677**

All fees quoted are exclusive of VAT.

Additional fees will be sought in relation to our work on the PPE valuation.

The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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

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