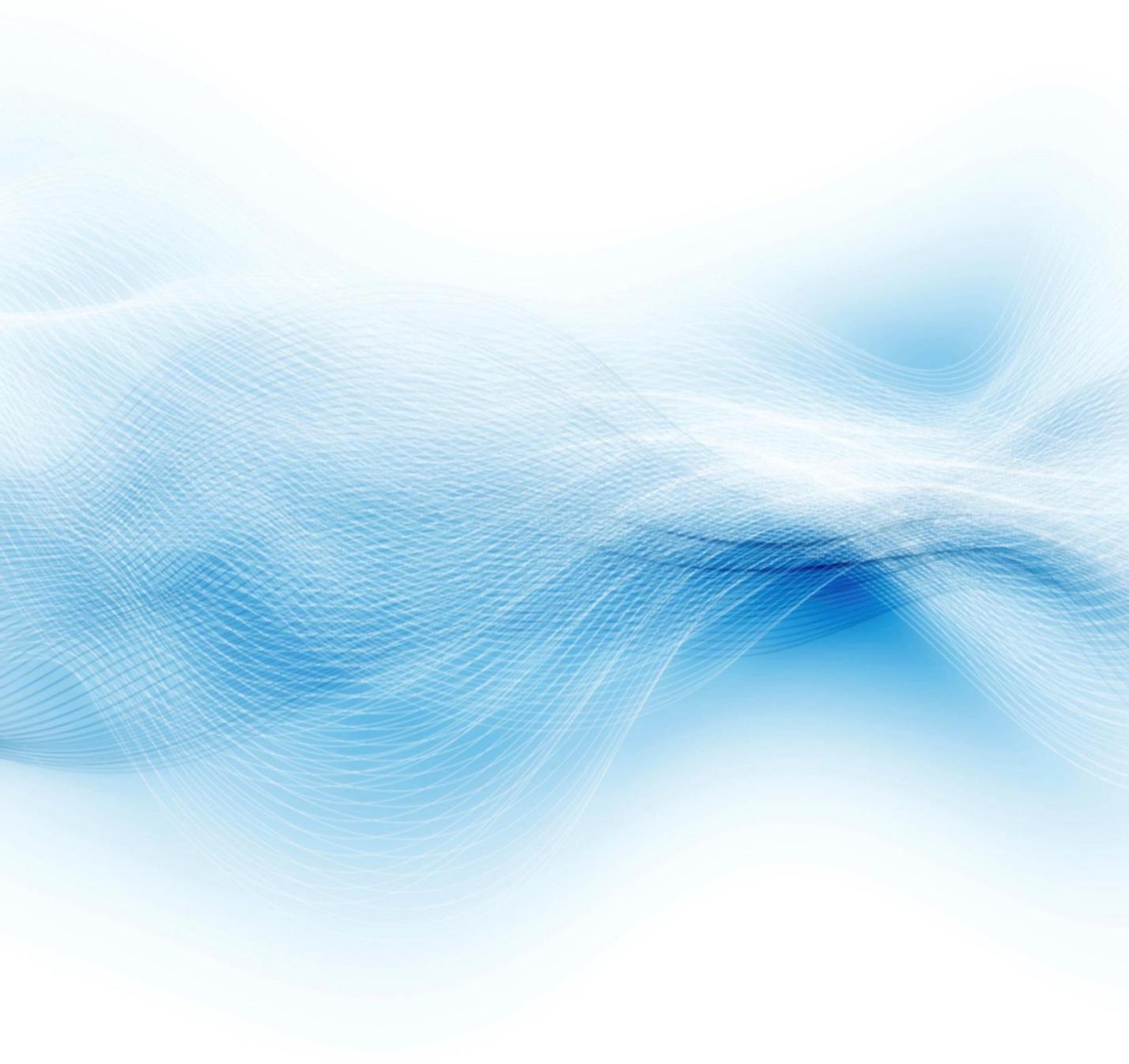


# Audit Completion Report

Gedling Borough Council

Year ending 31 March 2019



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23 July 2019

Dear Members

### **Audit Completion Report – Year ended 31 March 2019**

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 19 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. Management also identified a Prior Period Adjustment in relation to Property Plant and Equipment which we have considered and tested as part of our work on PPE.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0115 964 4744.

Yours faithfully

**David Hoose**  
Mazars LLP

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Gedling Borough Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 23 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

### Significant Audit Risks:

- Management override of controls;
- Valuation of property, plant and equipment, investment properties and assets held for sale (including the subsequent PPA); and
- Valuation of net defined benefit liability;

### Key Judgement Areas:

- Debt impairment;
- Provision for business rate appeals against the rating list; and
- Minimum Revenue Provision.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum, other than to review the Prior Period Adjustment on land and buildings as part of our work on Property Plant and Equipment. This has resulted in extra time being spent on the audit and as such we have yet to agree a fee for the additional work required on the PPA.

## Materiality

We set materiality at the planning stage of the audit at £1,068k using a benchmark of 2% of the Council's 2017/18 Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, remained at £1,068k, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at the planning stage of the audit at £32k, and again our final assessment remained unchanged.



# 1. EXECUTIVE SUMMARY (CONTINUED)

## Key findings of our work

As we outline below, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

Subject to the resolution of accounting issues relating to the Pension Liability as set out on page 5, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 31 August 2019.

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received no such objections or questions.

# 1. EXECUTIVE SUMMARY (CONTINUED)

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions liability		<p>All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. It mainly concerns the outcome of an age discrimination case (McCloud) where early guidance given to councils was that the impact would not be material.</p> <p>The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. Pension liabilities rely on complex and judgemental assertions by an actuary and the impact of the McCloud judgement and another issue relating to Guaranteed Minimum Pensions meant that there was sufficient uncertainty over the pension liability value to require the Council to request a new valuation from the pension fund.</p> <p>This updated actuarial report has been provided and the changes in relation to Gedling's Pension figures are material and have been changed. We have recently received a revised statement of accounts and have yet to check the revised pension figures.</p> <p>We are also awaiting a confirmation letter from the auditor of the Pension Fund.</p>

### Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

Officers are still to provide us with a revised Statement of Accounts that we will need to check to confirm our agreed amendments have been actioned appropriately.

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

## Misstatements and internal control recommendations

Section 3 sets out any internal control recommendations that we make.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report.



## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit that include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 12 we have concluded that the financial statements have been prepared in accordance with the financial reporting framework and provide commentary on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration and reported these to you in our Audit Strategy Memorandum. Our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

Management override of controls

#### Description of the risk

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.

#### How we addressed this risk

We addressed this risk by:

- Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- Testing the appropriateness of journal entries recorded in the general ledger and other material adjustments made in the preparation of the financial statements;
- Evaluating the business rationale for any significant transactions outside the course of the business;
- Understanding the oversight given by those charged with governance of management process over fraud;
- Making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and
- Considering whether the Council's accounting policies are consistent with industry standards;

#### Clarification from the Audit Strategy Memorandum

In our Audit Strategy Memorandum we also said we would:

- Review the calculation of management's material accruals, estimates and provisions for evidence of management bias;
- Sample test accruals and provisions based on established testing thresholds; and
- Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, they formed part of our standard audit procedures.

#### Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Valuation of property, plant and equipment, investment properties and assets held for sale

### Description of the risk

The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.

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### Relevant account balances

Cost of services (expenditure) for any depreciation and impairment charges

Those items of property, plant and equipment held at valuation being land and buildings as described in note 13

Investment property

Assets held for sale

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### How we addressed this risk

.There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum.

We addressed this risk through performing the following audit work:

- Reconciling valuations from the valuer's report had been recorded in the Fixed Asset Register;
- Testing a sample of assets valued during the year to valuation reports;
- Where material, testing the basis for impairment of assets, the value and correct accounting treatment;
- Critically assessing the Council's valuer's scope of work and methodology used; and
- Considering the impact of any assets not valued during the year.

In our Audit Strategy Memorandum we also said we would test a sample of capital expenditure in 2018/19 where material to confirm that the additions are appropriately valued in the financial statements. This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, it formed part of our standard audit procedures

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### Audit conclusion

The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

### Description of the risk (continued)

#### Significant risk

Valuation of property, plant and equipment, investment properties and assets held for sale

The re-valuation of the Civic Centre in 2018/19 identified that the floor area had been measured incorrectly and overestimated resulting in a material impact the valuation of the asset in the accounts. A review of 50 assets was then undertaken and 3 assets – the Civic Centre, Newstead Pavilion and the Richard Herod Leisure Centre were all found to have material errors in their floor area. This has resulted in a Prior Period Adjustment (PPA) with a third balance sheet provided for both 2016/17 and 2017/18 in line with the code requirements.

#### Relevant account balances

Cost of services (expenditure) for any depreciation and impairment charges

Those items of property, plant and equipment held at valuation being land and buildings as described in note 13

#### How we addressed this risk

We addressed this risk through performing the following audit work:

- Reviewing the work of the internal valuer and external valuer ( LSH) on the Civic Centre and reviewing the original and revised measurements and valuation reports provided by both the internal and external valuer;
- Testing that all buildings had been re-measured and ensuring that all material changes were then correctly treated as a PPA;
- Testing and reviewing the revised calculations provided for the Newstead Pavilion and Richard Herod Centre;
- Reviewing the PPA figures provided by the Council and testing these back in detail to source documents, valuer's calculations and ensuring the correct amendments were made to the relevant statements;
- Ensuring the fixed asset register had been updated correctly for the restated figures in 2016/17 and 2017/18;
- Reviewing the draft statement of accounts to ensure the PPA figures we were expecting and which we had tested had been actioned correctly through the CIES, the MIRS, the Balance Sheet and note 13; and
- Reviewing the narrative description of the PPA in note 5 to ensure it was complete and in line with our understanding and the figures provided and tested for the PPA.

#### Audit conclusion

Our work on the PPA found it had been accounted for correctly within the restated statements, the PPE note and the separate note explaining the PPA – see note 5 within the accounts

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Valuation of net defined pension liability

### Description of the risk

The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.

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### Relevant account balances

Pension liability costs as laid out in Note 35

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### How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum. We addressed this risk through performing the following audit work:

- Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and
- Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

In addition, we

- Critically assessed the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham;
- Liaised with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; and
- Performed a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council (note, our Audit Strategy Memorandum implied we would perform detailed tests, which was an incorrect transposition from our Audit file);

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### Audit conclusion

Whilst the majority of our work on the Council's defined benefit pension liability has not identified any issues, we do wish to bring the following to Members' attention.

Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19.

The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases. As a result the Council has recently obtained a revised valuation from the Pension Fund via its actuarial expert incorporating these two issues. This identified a material impact on the Council's financial statements. The revised statements were received on the 9<sup>th</sup> July and we have yet to check the accuracy of the amendments made to the financial statements back to the revised actuarial report.

This position is not dissimilar to the vast majority of local authorities.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

**Key area of management judgment**

Debt impairment

**Description of the judgment**

Uncertainty exists that, in the current economic climate, the Council's provision for the impairment of doubtful debts would be sufficient.

**Relevant account balances**

Debtors

**How we addressed this management judgement**

We addressed this judgment through performing the following audit work:

- Reviewing the level of reported debt as at the 31 March and considering the implications for any material change;
- Ensuring that managements methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code;
- Testing the collectability of both significant and a sample of other non-significant debtor balances; and
- Re-performing the basis of the calculation for the impairment of debtors.

**Audit conclusion**

Our audit procedures relating to the Council's provision for the impairment of doubtful debts have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

**Key area of management judgment**

Provision for business rate appeals against the rating list

**Description of the judgment**

The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.

**Relevant account balances**

Provisions

**How we addressed this management judgement**

We addressed this judgment through performing the following audit work:

- Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries;
- Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy;
- Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and
- Assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.

**Audit conclusion**

Our audit procedures relating to the Council's provision for business rate appeals have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

**Key area of management judgment**  
MRP

### Description of the judgment

Under statute, local authorities are normally required to annually set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is called the Minimum Revenue Provision and is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.

### Relevant account balances

Capital Financing Requirement

### How we addressed this management judgement

We addressed this judgment through performing the following audit work:

- Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance;
- Assessing whether the provision has been calculated and recorded in accordance with the Council's policy;
- Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and
- Confirming that any charge has been accounted for in accordance with the Code.

### Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements in relation to the Council's MRP.

We do, however, expect the Council to regularly review and revisit the appropriateness of its approach, paying particular attention to further revisions in Statutory Guidance and plans to repay borrowing when due.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Opening balances

We have performed relevant audit procedures on the Council's opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

In recognition of the demands placed upon staff and internal process as a result of the earlier accounts production deadline, the Council has refined its closedown plan to enhance the project management of this complex process. This included improving and developing working papers to aid the audit process, and officers engaging with the audit process in the period leading up to the year end in order to proactively address issues as they emerged.

Draft accounts were received from the Council on the 31 May deadline and were of a good quality. This represents a significant achievement by the finance team.

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the co-operation of management and staff.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

We have not received any questions or objections.



# 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	0

### Significant deficiencies in internal control

We have not identified any significant deficiencies in internal control. Any minor issues will be discussed with the finance team as part of the audit de-brief.

## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £32k.

The first section outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second section outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements 2018/19

We identified one misstatement(s) that management has decided not to adjust. This relates to the Prior Period Adjustment (PPA) on Property Plant and Equipment (PPE).

#### 1 Overstatement in Asset floor Areas in Prior Years

A total of 50 assets were checked and re-measured after the error on the Civic Centre floor area was identified. Of these 50 assets 3 had material differences in their floor area and were updated within the accounts in the PPA and 14 had no differences identified in their floor area. This left a total of 33 assets with a gross overstatement in floor area of 305 m<sup>2</sup>. The impact of these changes cannot be easily calculated as each asset would have to be worked through individually, although the overall impact would be below materiality. These assets have not been included in the Prior Period Adjustment but were reflected correctly in the balance sheet for 2018/19. The 3 assets that were updated in the PPA had an overstatement in floor area of 1,357m<sup>2</sup>.

### Adjusted misstatements 2018/19

We identified no adjusted misstatements other than the changes to the pension figures as a result of obtaining a revised actuarial report to take account of the McCloud/GMP pension issues.

	Before £000's	After £000's
1 Balance Sheet - Net Pension Liability	44,979	46,983
Comprehensive Income and Expenditure Statement – Cost of Services: Service Costs	3,439	4,398
Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure: Net interest expense	1,220	1,220
Total re-measurements recognised in Other Comprehensive Income and Expenditure	(6,801)	(5,759)
Updated figures as a result of a revised actuarial valuation, taking into account assumptions for the McCloud judgement and actual performance of the pension fund to 31 March 2019. There are also additional consequential changes to the Pension Fund note, but none of these items impact the Council's General Fund.		

### Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or their related notes, our audit also identified a number of required adjustments in relation to other disclosures. These have been discussed with management who have agreed to the amendments and include:

- A change to the disclosure in the remuneration report (note 30). The code requirements are that only staff with strategic responsibility should be included in the senior officer remuneration note. As a result the senior management team have been removed from the note for both 2018/19 and 2017/18. The pay banding note has also been amended so as not to double count the senior officers in the remuneration table which had occurred in the past and has now been placed after the senior officer remuneration table in line with code guidance.

# 5. VALUE FOR MONEY CONCLUSION

## Introduction

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

## Our approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As set out in our Audit Strategy Memorandum, for the 2018/19 financial year, we identified one significant audit risk in relation to VFM.

Based on the work performed, we are satisfied that the Council's arrangements are adequate.

## Matters kept under review

Before drawing our conclusion, we have:

- Updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports;
- Reviewed the Council's Annual Governance Statement for any significant issues; and
- Considered the Council's financial outturn position as presented in the financial statements.

From the work performed, no new significant VFM risks were identified and we have no matters to report.

## Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



# 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

## Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified a single significant Value for Money risk. The work we carried out in relation to this significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p><b>Delivery of Budgets and Financial Resilience</b></p> <p>The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2018/19. The Authority approved a balanced budget in March 2018 which required the use of £1.278 of General Fund Balances to fund the budget deficit.</p> <p>The latest month 9 forecast shows the Council are expecting to achieve a £243k underspend against the revenue budget which will reduce the required contribution from the General fund to £1.036m. This saving represents 2% of the original budget of £12,145,200. In addition the Council is expecting a year end capital outturn of £4.956m against the original budget of £9.776m, the reduction in the main due to deferrals on large projects, including the £2.5m commercial property fund which will be used to generate income streams for the Council from 2019/20 onwards.</p> <p>The MTFP also shows the Council identified the need to make savings of £2.8m between 2018/19 to 2022/23, of which £1.187m are expected in 2018/19. It is projected that £1.047m of this will be delivered this financial year with £140k to be deferred until 2019/20. Even with these savings the Council still need to utilise balances each year to manage the funding gap. As a result the 2018/19 budget approved by Council in March 2018 approved an additional efficiency target of £1.1m from 2019/20 to 2022/23, weighted more towards the end of this period. If achieved this will reduce the burden on the use of reserves.</p> <p>There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the 2019 Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention). As a result, the need to identify and monitor savings (or achieve income generation) will continue to have a significant impact on the Authority's financial resilience and reduce the burden on the need to utilise reserves to plug any deficits in the budget.</p>	<p>We have critically reviewed whether the Council has arrangements in place to ensure financial resilience, specifically that the MTFP has duly taken into consideration the latest available information on factors such as:</p> <ul style="list-style-type: none"> <li>•funding reductions;</li> <li>•business rate reform;</li> <li>•fair funding;</li> <li>•salary and general inflation;</li> <li>•demand pressures;</li> <li>•restructuring costs; and</li> <li>•sensitivity analysis given the degree of variability in the above factors.</li> </ul> <p>We have reviewed the progress of saving plans and ongoing funding plans.</p> <p>We have reviewed the planned use of the commercial investment fund moving forward and evaluated how the Council ensure commercialisation schemes utilised for revenue generation do not open the Council to unnecessary VFM risks.</p>	<p>Having completed our planned procedures, we are satisfied that, in all material respects, the Council's arrangements to deliver balanced budgets and ensure financial resilience are adequate.</p> <p>We have reviewed the year end outturn position reported to cabinet on the 24 May. This shows that the Council achieved a General Fund underspend of £151,565. Additional income was also received from business rates and revenue support grant enabling a £269k saving on transfers from the General fund Balance (£767k instead of £1.036m) which can be used to support future budgets and the MTFP. In addition the Council were able to make more contributions to earmarked reserves than they anticipated.</p> <p>Efficiencies and budget savings will still continue to be required and monitored as part of the budget process and MTFP. Moving forward efficiency savings of £1.395m have been set from 2019/20 to 2022/23 with £472k required in 2019/20.</p> <p>The Council recognises that in addition to making savings and increasing income the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. Over the three years to 2021/22, the level of general reserves remains above the Council's minimum level of 7.5% of projected expenditure (reducing from a £2.8m surplus on balances to a £1.6m surplus over this period) and it is over this period, we judge it most relevant to base our Value for Money Conclusion on. However as the Council moves into 2023/24, the level of reserves drop to £1.6m although this still represents a £0.8m surplus above the required target.</p>

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP  
Park View House  
58 The Ropewalk  
Nottingham  
NG1 5DW

[Date]

Dear Sirs

### **Gedling Borough Council - audit for year ended 31 March 2019**

This representation letter is provided in connection with your audit of the financial statements of Gedling Borough Council (the Council) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

#### **My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Deputy Chief Executive and Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### **Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

#### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

#### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

#### **Use of the Work of the Valuer**

I confirm an appropriately skilled valuer has been engaged to examine the Council's non-current assets held at fair value. I am satisfied the valuer was given sufficient information and access to records to determine and evaluate the valuation of non-current assets.

#### **Retirement benefits**

I am satisfied that the actuarial assumptions informing the pensions liability are consistent with my knowledge of the Council. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

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# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

#### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

#### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

#### Fraud and error

I acknowledge my responsibility as Deputy Chief Executive and Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

#### Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the to you the requirements of the Code and applicable law.

I have disclosed identity of the Council's related parties and all related party relationships and transactions of which I am aware.

#### Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

#### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed .

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements (as attached to this letter) are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Deputy Chief Executive and Director of Finance

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### Independent auditor's report to the members of Gedling Borough Council

#### Report on the financial statements

##### Opinion

We have audited the financial statements of Gedling Borough Council ('the Council') for the year ended 31 March 2019, which comprise the which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Gedling Borough Council as at 31<sup>st</sup> March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Deputy Chief Executive and Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Deputy Chief Executive and Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The Deputy Chief Executive and Director of Finance is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Responsibilities of the Deputy Chief Executive and Director of Finance for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Deputy Chief Executive and Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Deputy Chief Executive and Director of Finance is also responsible for such internal control as the Deputy Chief Executive and Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Deputy Chief Executive and Director of Finance is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Deputy Chief Executive and Director of Finance is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Conclusion on Gedling Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Gedling Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Use of the audit report

This report is made solely to the members of Gedling Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### Certificate

We certify that we have completed the audit of Gedling Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### David Hoose

For and on behalf of Mazars LLP

Park View House  
58 The Ropewalk  
Nottingham  
NG1 5DW

July 2019

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# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



## CONTACT

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