

Audit Progress Report

Gedling Borough Council

Year ending 31 March 2022





Audit Progress Update – Year ending 31 March 2022

We are pleased to present this Progress Report for the year ending 31 March 2022. The purpose of this document is to summarise the current position regarding the audit and to inform you as follows:

1. A reminder about our Engagement Responsibilities as your external auditor, including changes in the Audit Team
2. Position statement on the financial statement audit
3. Position statement on our work in relation to value for money arrangements at the Council

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me at mark.surridge@mazars.co.uk.

Yours faithfully

Mark Surridge

Mazars LLP

This document is to be regarded as confidential to Gedling Borough Council. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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Section 01:

**Engagement and
responsibilities summary**

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Gedling Borough Council (the Council) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Value for money

We are also responsible for forming a commentary on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

1. Engagement and responsibilities summary

Independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

1. Your audit engagement team

We have made a change to your engagement lead for the 2021/22 audit as a result of an internal team restructure. Mark Surridge, the external audit lead to 13 other local authorities including district councils across Nottinghamshire, will take over from David Hoose effective from February 2023.

Below is your audit engagement team and their contact details. David will remain available to Mark as a sounding board through to the completion of the audit.

Mark Surridge

Engagement Lead

Email: mark.surridge@mazars.co.uk

Michael Butler

Engagement Senior Audit Manager

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David Hoose

Outgoing Engagement Lead

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02

Section 02:

Financial Statement Audit

2. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

Our Audit Strategy Memorandum was issued to the Committee in June 2022, which identified risks relevant to the audit of financial statements categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Summary risk assessment – June 2022

The summary risk assessment, illustrated in the table below, highlights those risks which we judged to be significant when planning the audit in June 2022:



Key: ● Significant risk

2. Audit scope, approach and timeline

Current status

Whilst our testing and audit procedures were substantially complete, the audit was put on pause in light of the investigation by Nottinghamshire Police regarding alleged fraud involving a staff member in 2022.

We have met regularly with officers and internal audit to remain apprised of the situation and consider the impact on our audit approach. We are maintaining a watching brief over the case development to ensure our audit response on the financial statements and value for money arrangements does not unnecessarily duplicate or accidentally prejudice the case.

To date, we have revisited our risk assessment on the financial statements and are in the process of consulting with our technical and quality teams regarding a revised audit approach covering all of 2021/22, including revisiting work already performed. Once completed, we will issue an updated Audit Strategy Memorandum setting out in more detail the impact on our audit approach.

We expect a substantial increase in testing across all areas of the financial statements, which will also lead to a higher cost to the Council to complete the audit. We have provisionally set aside an audit team to complete the 2021/22 audit in **September 2023**, with a view for completion by November 2023.

03

Section 03:

Value for money

3. Value for money

The framework for Value for Money work

We are required to form a view 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 view, and sets out the overall criterion and sub-criteria that we are required to consider. Our responsibility is to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment

- Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:
- NAO guidance and supporting information
 - Information from internal and external sources including regulators
 - Knowledge from previous audits and other audit work undertaken in the year
 - Interviews and discussions with staff and members

Additional risk-based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

Reporting

- We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.
- Our commentary will also highlight:
- Significant weaknesses identified and our recommendations for improvement
 - Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

3. Value for money

Identified risks of significant weaknesses in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the Council’s arrangements and to identify risks that significant weaknesses in arrangements may exist. As with our work on the financial statements, we need to ensure our approach appropriately considers the alleged fraud and the table below outlines the risk of significant weaknesses in arrangements that we have identified to date.

We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
1	<p>Fraud & Internal Control: Allegations of fraudulent behaviour by Council Officers.</p> <p>Nottinghamshire Police are investigating an alleged case of "significant" fraud involving a Gedling Borough Council officer member. The alleged fraud was uncovered by the Council and reported to the police.</p> <p>We believe the allegations present a risk of significant weakness in the Council’s arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) including:</p> <ul style="list-style-type: none"> • how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud • how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.* 	-	●	-	<p>Our work will include, but not be limited to:</p> <ul style="list-style-type: none"> • Review relevant internal audit reports • Meet with Officers and Internal Audit • Maintain a watching brief on the prosecution case by the Police • Draw from additional testing performed during our audit of the financial statements.

*Criteria as defined by Auditor Guidance Note 3 (AGN 03), Auditors’ Work on Value for Money (VFM) Arrangements, December 2021

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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