



# External audit report 2016/17

**Stroud District Council**

—  
31 August 2017





# Summary for Audit & Standards Committee

**Financial statements** This document summarises the key findings in relation to our 2016-17 external audit at Stroud District Council ('the Authority'). This report focusses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 14.

Our report also includes additional findings in respect of our control work which we have identified.

**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 30 September.**

We have identified one audit adjustment relating to the valuation of housing stock, which was overstated by £7.7 million as a result of a change in the index being applied to revalue this stock subsequent to the draft accounts being prepared. This has been adjusted by management in the final set of financial statement. See page 10 for details.

Based on our work, we have raised one recommendation. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit.

**Use of resources** We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure 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.**

See further details on page 15-20.

**Acknowledgements** We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

**We ask the Audit & Standards Committee to note this report.**

# Contents

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2 Summary for Audit & Standards Committee

4 Section one: financial statements

15 Section two: value for money

## **Appendices**

22 1. Follow-up of prior year recommendations

24 2. Audit differences

26 3. Materiality and reporting of audit differences

27 4. Declaration of independence and objectivity

28 5. Audit and non-audit fees

This report is addressed to Stroud District Council (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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://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 Darren Gilbert, 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 (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto: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](mailto: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 3H.

**Section one**

# Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a surplus of £33.8m. The impact on reserves after statutory accounting adjustments has been a decrease in the General Fund of £0.9m and an increase in the HRA account of £4.2m.



# Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<b>1. Significant changes in the pension liability due to LGPS Triennial Valuation.</b>	<p data-bbox="445 547 651 573"><b>Why is this a risk?</b></p> <p data-bbox="445 592 1322 762">During the year, the Local Government Pension Scheme which is administered by Gloucestershire County Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p data-bbox="445 793 1348 903">The pension liability numbers to be included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p data-bbox="445 934 1336 1044">There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Gloucestershire County Council, which administers the Pension Fund.</p> <p data-bbox="445 1079 776 1106"><b>Our work to address this risk</b></p> <p data-bbox="445 1125 1333 1234">Further to the usual procedures over pension balances, we have agreed data provided by the Authority to the actuary relating to the triennial valuation, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.</p> <p data-bbox="445 1265 1336 1348">We have also liaised with Grant Thornton, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy of such data.</p>

## Considerations required by professional standards

### Fraud risk of 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 2016/17* 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.



### 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.



## Other areas of audit focus

We identified two areas of audit focus. These are not considered as significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

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Other areas of audit focus	Our work to address the areas
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<b>1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS</b>	
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	<b>Background</b>
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	CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how councils are funded and how they use the funding to serve the local population. The outcome of this project has resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (the Code) as follows:
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|--|--|
|  | <ul style="list-style-type: none"><li>■ Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and</li><li>■ Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.</li></ul> |
|--|--|

	As a result of these changes, retrospective restatement of the CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the Statement of Accounts. The new disclosure requirements and the restatement of the accounts require compliance with relevant guidance and the correct application of applicable Accounting Standards. This is therefore an important material disclosure change in this year's accounts, worthy of audit understanding.
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	<b>What we have done</b>
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	We have liaised with the Authority's finance team regarding the new requirements and have agreed the new disclosures, including the restatement of the prior year comparators, to supporting documentation including financial information reported to Members.
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<b>2. Fair Value of Property</b>	
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	<b>Background</b>
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	The Council holds a significant property portfolio and needs to consider whether the carrying value of property assets is materially stated as at the balance sheet date. In doing so, it should pay particular consideration to complex development schemes or property earmarked for a change in usage or as surplus to ensure the valuation of these as per the most recent valuation is still appropriate.
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	<b>What we have done</b>
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	We reviewed the appropriateness of the valuation methodology and considered the expertise of the valuer performing the exercise. We have also reviewed the Council's consideration of the accuracy of the year-end carrying value of properties not revalued at balance sheet date. Testing was performed on a sample of property revaluation and discussions were held with management to gain an understanding of the changes in use/surplus properties and how these have been considered in the valuations.
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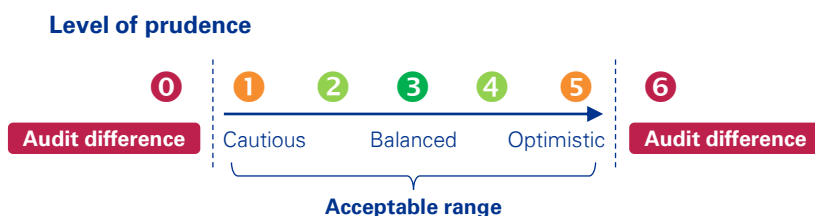
	As a result of our work, an audit adjustment of £7.7m was raised in relation to changes in the housing index applied by the Council subsequent to the accounts being prepared. This adjustment has been corrected by management (see page 10 and Appendix 2).
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# Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
<b>Provisions</b>	3	3	<p>The amount of provisions is immaterial and in line with prior year balance. The balance mainly includes a provision for NNDR appeals. We consider the provision disclosures to be proportionate.</p> <p>Current Year: £0.7m Prior Year: £0.7m</p>
<b>Property, Plant and Equipment (valuations/asset lives)</b>	4	3	<p>Property, plant and equipment is made up of £256m council dwellings, £51m other land and buildings, and £5.9m non-property assets. The property assets are depreciated over their useful lives and valued over a five year period. An in-house valuer assesses 20% of the non-housing assets each year across each property class, with housing assets being revalued on an index basis every year with a more detailed "beacon" valuation every 5 years. We reviewed a sample of revalued assets and noted that these were accounted for correctly.</p> <p>An audit adjustment was raised in relation to changes in the housing index applied by the Council subsequent to the accounts being prepared. This adjustment has been corrected by management (see page 10 and Appendix 2).</p> <p>We consider that the valuation approach for this year is sufficient to avoid the risk of a material audit difference in the assets which have not been revalued, but the Council should remain alert to the potential of material movements in non-revalued asset values in future years.</p>
<b>Pensions</b>	3	3	<p>Assumptions are set when calculating the liability amount. The key assumptions used by the actuary were reviewed and appear reasonable for the purpose of IAS19.</p>

# 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 2016/17 financial statements following approval of the Statement of Accounts by the Audit & Standards Committee on 12 September 2017.

## 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 level for this year's audit was set at £1.5 million (see Appendix 4). Audit differences below £1.1 million are not considered significant.

Our audit identified a total of one significant audit difference, which we set out in Appendix 2. It is our understanding that this will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund and HRA for the year and balance sheet as at 31 March 2017. The tables also include changes arising from management's identification for reclassification of figures.

There is no net impact on the General Fund and HRA balances as at 31 March 2017 as a result of audit adjustments. However, there is a £7.7m reduction to the value of Property, Plant and Equipment and an increase in downwards revaluation through the HRA I&E of £2.5m as a result of the housing stock valuation error noted on pages 8 and 9, and summarised in Appendix 2.

In addition, we identified a 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 2016/17 ('the Code'). The Authority has addressed these where significant.

Movements on the general and HRA fund 2016/17			
£'000	Pre-audit	Post-audit	Ref <sup>1</sup>
Surplus on the provision of services	36,303	33,825	1
Adjustments between accounting basis and funding basis under Regulations (GR and HRA only)	-32,999	-30,521	
<b>Increase in General Fund and HRA (including earmarked reserves)</b>	<b>3,304</b>	<b>3,304</b>	

Balance sheet as at 31 March 2017			
£'000	Pre-audit	Post-audit	Ref <sup>1</sup>
Property, plant and equipment	320,059	312,401	1
Other long term assets	2,947	2,947	
Current assets	38,264	38,404	
Current liabilities	-10,883	-10,883	
Long term liabilities	-154,718	-154,858	
<b>Net worth</b>	<b>195,670</b>	<b>188,012</b>	
General Fund	2,169	2,169	
Other usable reserves	26,495	26,495	
Unusable reserves	167,006	159,348	1
<b>Total reserves</b>	<b>195,670</b>	<b>188,012</b>	

<sup>1</sup> See referenced adjustments in Appendix 2.

## Section one: financial statements

### Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Subsequent to the draft accounts, the Council has made a decision to publish the Annual government statement as a separate document to the Statement of Accounts and display together on the website in line with CIPFA recommendations.

### Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



# Accounts production and audit process

Our 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.

## KPMG Central

The Authority continues to use our KPMG Central tool. KPMG Central has allowed the team to securely transfer large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Closedown Team to efficiently share requested information. Feedback from the finance team continues to be positive.

## Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

The Authority has finalising the accounts in a shorter timescale which puts the Authority in a good position to meet the new 2017/18 deadline. Nonetheless, there is scope to improve the process further by putting in place additional reviews of working papers and sharing audit responsibility (see sections below) to make sure the 2017/18 audit deadline is achieved.

We consider the Authority's accounting practices appropriate.

## Completeness of draft accounts

We received a complete set of draft accounts in advance of the 30 June statutory deadline.

## Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) which outlines our documentation request. This helps the Authority [and the Fund] to provide audit evidence in line with our expectations.

While the quality of working papers were generally good quality, we did identify some issues in relation to certain working papers (e.g. capital supporting papers not reconciling to accounts note) which resulted in some delays in auditor understanding and increased auditor queries. This may be as a result of faster closing timelines.

There is an opportunity for improvements to be made in providing clear and concise audit trail of underlying transactions.



### Response to audit queries

Officers generally dealt with our audit queries swiftly although we experienced some delays in certain areas, in particular queries where the query was redirected to multiple individuals.

There is still room for improvement in this area, in particular to ensure there is sufficient audit responsibility spread around the finance team to avoid delays due to requests building up with key individuals from multiple auditors, which are a risk when the deadlines are shortened and our audit visit will require more staff over a shorter period.

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has not yet implemented the recommendation in our ISA 260 Report 2015/16.

Appendix 1 provides further details.

### Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work performed, we are satisfied that the controls relating to our audit approach are performing effectively. We are able to place reliance on these controls where planned.

### Collection fund balances

In previous years we have included a comment in our report in relation to the deficit on the business rates element of the Collection Fund.

This deficit continues to decrease following a surplus of £823,000 this year and is now down to £70k as at 31 March 2017.

The Council Tax element of the fund has made a deficit of £51k this year but remains in credit overall of £1,136k.

As in previous years, the Authority is applying established processes to recover the deficit in future years. No issues have been identified in our review of the accounting of either part of the fund.

# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 Stroud District Council ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Stroud District 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 4 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 s151 Officer for presentation to the Audit & Standards 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 other matters which we wish to draw to your attention in addition to those highlighted in this report.





**Section two**

# Value for money



Our 2016/17 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.



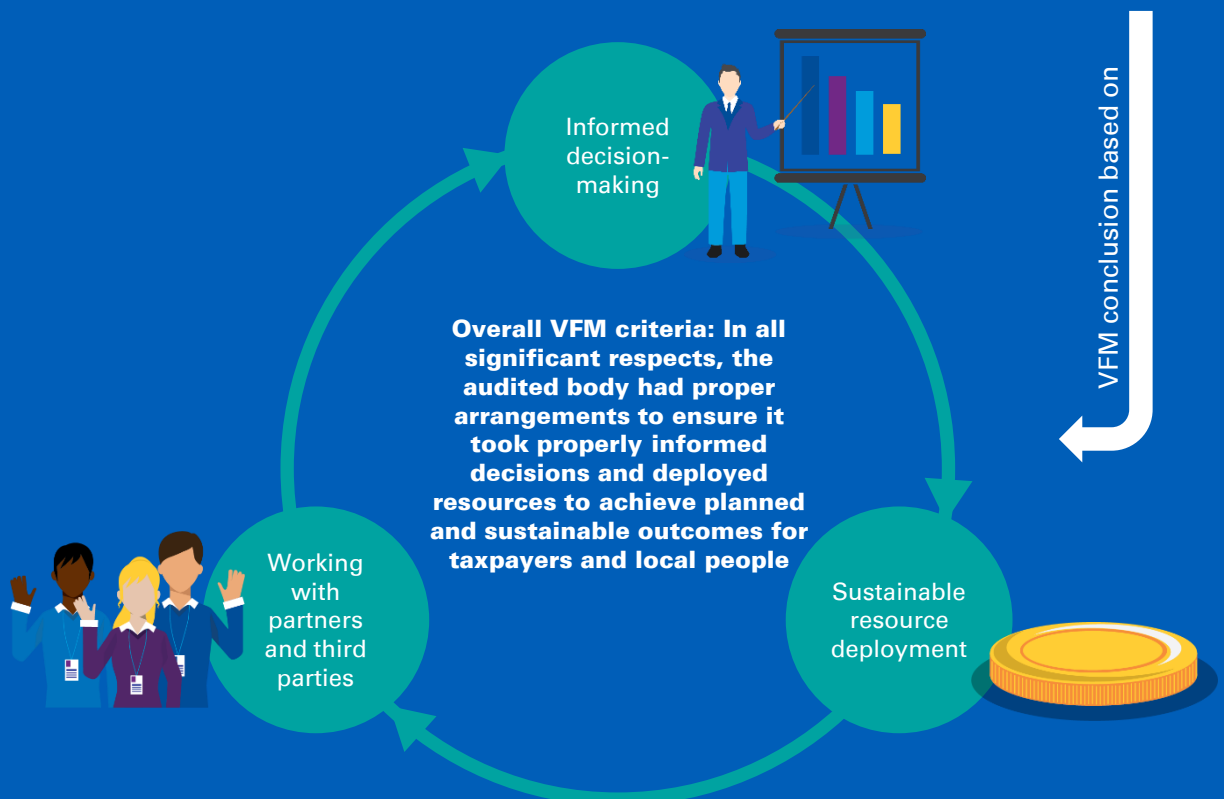
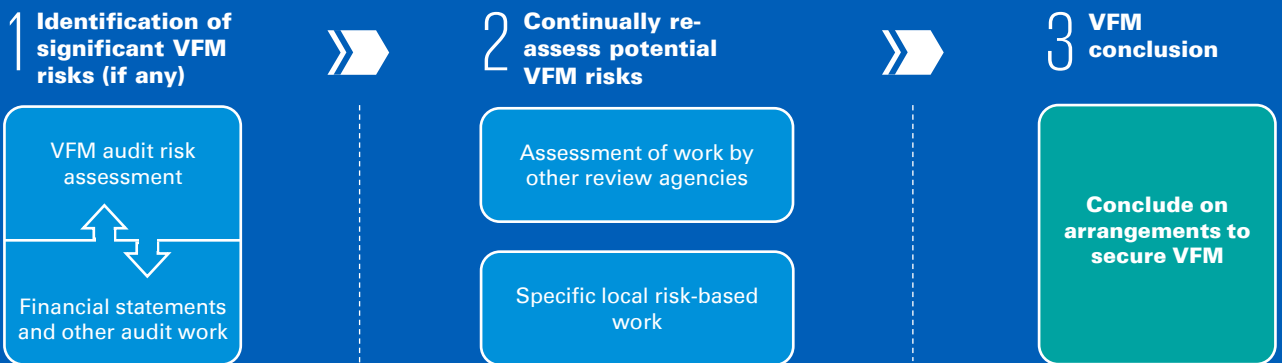
# VFM conclusion

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.'

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





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

<b>VFM assessment summary</b>			
<b>VFM risk</b>	<b>Informed decision-making</b>	<b>Sustainable resource deployment</b>	<b>Working with partners and third parties</b>
<b>1. Financial Resilience in the local and national Economy</b>	✓	✓	✓
<b>2. Contract Procurement</b>	✓	✓	✓
<b>Overall summary</b>	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, 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.

In line with the risk-based approach set out on the previous page, we have:

- assessed the Authority’s key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

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

# Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. 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.

Significant VFM risks	Work performed
<p><b>1. Achievement of the Savings Plan</b></p>	<p><b>Why is this a risk?</b></p> <p>There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.</p> <p>In December 2016, the Authority published a draft Medium Term Financial Plan (MTFP) 2017/18 –2021/22 (which incorporates its Efficiency Plan published in September 2016) that sets out a balanced budget for 2017/18.</p> <p>From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored by the management board. The Authority's proposed new governance arrangements include a specific officer board focussed on the delivery of the Efficiency Plan and associated improvement projects.</p> <p><b>Summary of our work</b></p> <p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.</p> <p>The Authority reported an overall breakeven position on its net expenditure budget for 2016/17 after the net contribution of £0.36m from the Earmarked General Fund reserve. This enabled the uncommitted General Fund balance to remain at £2.2 million as of 31 March 2017.</p> <p>The Authority's Medium Term Financial Plan (MTFP) details a balanced budget for 2017/18 after use of reserves of £567,000, including savings of £25,000 in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, with the current MTFP using reserves of £1.8m in 2018/19, £2.8m in 2019/20 and £341k in 2020/21, after which the general funds are likely to be fully diminished (the 2020/21 budget showing a deficit of £3.3m after use of reserves).</p> <p>However, this is intended as a worst case scenario budget (it includes only £170k of savings) and the Council is actively working on further savings plans to reduce the required reserves usage, as well as investigating potential for increased income generation.</p> <p>Based on our review of the plans in place and understanding of the actions being taken, there are no factors impacting adversely on our VFM conclusion.</p>

Significant VFM risks	Work performed
<b>2. Procurement</b>	<p data-bbox="444 366 651 391"><b>Why is this a risk?</b></p> <p data-bbox="444 428 1343 540">In 2014/15 we issued a qualified VFM opinion as a result of instances identified in our and in internal audit's work where the Council had not followed its own procurement policies by failing to operate an appropriate procurement exercise and by making inappropriate variations to existing contracts.</p> <p data-bbox="444 559 1343 727">In 2015/16, our work found that while it was clear that there remained some discrepancies in procurement procedures, the issues were much reduced from last year and less significant in nature. In addition, we did not identify any issues in the most significant new arrangements established during the year. Based on this, we considered that sufficient improvements had been made for us to issue an unqualified VFM conclusion.</p> <p data-bbox="444 745 1343 830">However, it remains important that the Council continues to focus on making improvements to its procurement arrangements, both through the processes in place and the extent to which they are applied in practice.</p> <p data-bbox="444 876 696 901"><b>Summary of our work</b></p> <p data-bbox="444 922 1343 975">In 2016/17, we reviewed the work of internal audit over procurement and considered if any significant new contracts required additional work.</p> <p data-bbox="444 994 1343 1048">There were no significant issues resulting from internal audit work during the year, and no major contracts let during the year.</p> <p data-bbox="444 1067 1343 1120">In addition, we have reviewed the procurement action plan and confirmed that it is on target.</p> <p data-bbox="444 1139 1276 1164">On this basis, there are no factors impacting adversely on our VFM conclusion.</p>



A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, golden light. The word 'Appendices' is overlaid in a red, serif font, centered horizontally and partially enclosed by two vertical red lines.

# Appendices

# Follow-up of prior year recommendations

In the previous year, we raised one recommendation which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not yet implemented all of the recommendations. We reiterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

## 2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	0
Medium	1	0	1
Low	0	0	0
<b>Total</b>	<b>1</b>	<b>0</b>	<b>1</b>

# Follow-up of prior year recommendations

Medium priority

## 1. Purchase data analytics findings

We performed a range of analytics over purchase ledger data for 2015/16, which identified a number of areas for follow up by management:

- a significant amount of invoices were raised without purchase order within the Agresso system; and
- a significant amount of purchase orders were raised after the invoice date.

This means there is a risk that the purchase order authorisation control is not operating correctly for these invoices.

In addition, we identified a number of transactions which are possibly duplicate which we have provided to management for follow-up

### Recommendation

Management should follow up on the items identified and consider whether process changes or additional training/education is required regarding the use of Purchase Orders.

## Management original response

The Council recognises the importance of raising purchase orders (POs) for goods and services within the Agresso system. The processing and payment of invoices has been subject to a 'Systems Thinking' review in the last 12 months.

This review recommended that POs should be raised for all invoices where possible, with some notable exceptions such as utilities and Tenant Services repairs and works orders. It also recommended that the finance team, after a transitional period, should enforce PO compliance so that invoices presented for payment without a valid PO would not be processed and returned to the supplier.

The finance team are currently considering the timing of this change. It is likely that the Agresso system will require a significant upgrade in the coming months. Therefore, it would be more practical to delay the rollout of enforced PO compliance until we have had more time to understand the impact an upgrade would have on the way POs and invoices are processed in Agresso.

### Owner

David Stanley

### Original deadline

March 2017

## KPMG's 2017 assessment

Not implemented

The recommendation has not been implemented during this financial year as management wishes to roll out in line with upgrades to the Agresso system which have not yet taken place.

## Management's 2017 response

The Council has agreed to implement a 'No purchase order, no payment' policy following a finance and wider review of the creditor payments process. Implementation has been put on hold until the financial system is upgraded. The Council hoped to undertake this in May-September 2017, but for various reasons this is not expected to take place until May-September 2018.

The Council decided that there is limited benefit to the organisation of introducing a change to the process before the upgrade, given the upgrade itself may change the process.



# Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit & Standards Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

### Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Stroud’s financial statements for the year ended 31 March 2017. These have all been adjusted in the financial statements presented to this committee.

Table 1: Adjusted audit differences (£'000)						
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	DR Council Dwelling Revaluation £2,478	DR adjustment between accounting and funding basis (Capital adjustment account) £2,478  CR adjustment between accounting and funding basis (HRA) £2,478	CR Property, Plant and Equipment £7,658		DR Revaluation Reserve (OCI) £5,180	<b>Housing stock valuation</b>  This relates to a downward adjustment on Property, Plant and Equipment to reflect the most up to date index in the revaluation figure. The adjustment is due to the timing difference arising from when the index was obtained by the Council from the Land Registry Website. A 10.44% Index Factor for December 2016 was used differs when preparing the draft financial statements, but by the time of the audit this had been adjusted down by the Land Registry to 7.15%. This resulted in the value of housing sock being overstated by £7.7m difference and HRA downwards revaluation being understated by £2.5m.
	<b>DR £2,478</b>	<b>0</b>	<b>CR £7,658</b>		<b>DR £5,180</b>	

## Appendix 2

### Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Stroud District Council's financial statements for the year ended 31 March 2017. These differences are individually below our materiality level of £1.5 million. Cumulatively, the impact of these uncorrected audit differences is £320,000. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

**Table 2: Unadjusted audit differences (£'000)**

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1		Cr General fund £320,000 Dr Pension Reserve £320,000	Cr Pensions Assets £320,000	Dr Creditors £320,000		This relates to March 2017 pension contributions which had not been paid to the pension administrator (Gloucestershire County Council) prior to year end. International Accounting Standard (IAS) 19 Employee Benefits specifically stipulates that unpaid contributions cannot be considered as part of the plan assets as they are a non-transferable asset until they are paid over. The impact of this misstatement is only on the balance sheet and on the mechanics of the pension transactions within the accounts, as the Council has an equivalent creditor balance to the pension scheme.
	-	-	<b>Cr £320,000</b>	<b>Dr £320,000</b>	-	

# 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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £1.5million which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit & Standards 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 & Standards Committee 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75,000 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 & Standards Committee to assist it in fulfilling its governance responsibilities.

# Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Audit & Standards Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### 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 Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

### Auditor declaration

In relation to the audit of the financial statements of Stroud District Council for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Stroud District 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.



## Appendix 5

# Audit and non-audit fees

### Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £51,975 plus VAT, which is the same as prior year.

### Non-audit work and independence

Below we have listed the non-audit work performed and set out how we have considered and mitigated (where necessary) potential threats to our independence.

Summary of non-audit work		
Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Certification of Housing Benefit Claim	£7,590	<p><b>Self-interest:</b> The audit fee scale rates were set independently to KPMG by the PSAA and are not material to the audit fee. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit.</p> <p><b>Self-review:</b> The work is to provide a certification and does not provide any accounting decisions or advice that would require as part of the financial statements audit.</p> <p><b>Management threat:</b> No decisions or advice to be provided as part of this work, as it is an audit related certification.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy:</b> We will not act as advocates for the Authority in any aspect of this work.</p> <p><b>Intimidation:</b> not applicable</p>
Agreed upon procedures over HCA Social Housing Assistance and grants	£2,000	<p><b>Self-interest:</b> Both these engagements are outside the PSAA regime and have fees set by KPMG but which are not material to the audit fee. Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. The HCA procedures also have a different engagement partner.</p>
Certification of Pooling of Housing Capital Receipts Return	£3,500	<p><b>Self-review:</b> The work is to provide a certification or results of procedures and do not provide any accounting decisions or advice that would require as part of the financial statements audit.</p> <p><b>Management threat:</b> No decisions or advice to be provided as part of this work, as it is an audit related certification.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy:</b> We will not act as advocates for the Authority in any aspect of this work.</p> <p><b>Intimidation:</b> not applicable</p>
<b>Total estimated fees</b>	<b>£13,090</b>	
<b>Total estimated fees as a percentage of the external audit fees</b>	<b>25%</b>	



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