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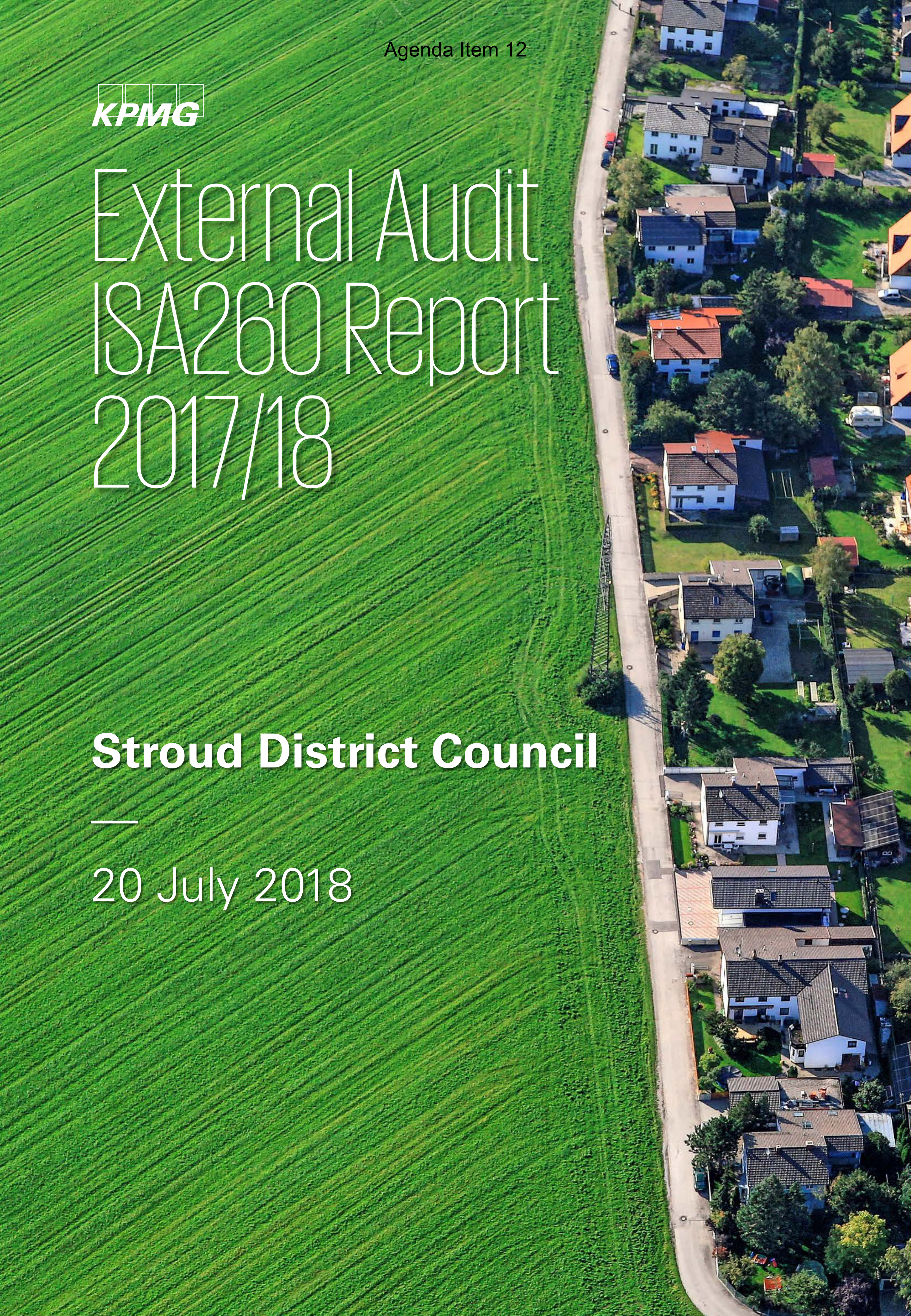

External Audit ISA260 Report 2017/18

Stroud District Council

—

20 July 2018

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Summary for Audit & Standards Committee

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

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

Audit status	We are now in the completion stage of the audit with some audit queries still outstanding at the time of writing; in particular: related party transaction returns from 2 councillors (or alternative evidence), finalisation of manager and director file review and final checks/tie-through of the post audit adjustments version of the Statement of Accounts. We anticipate issuing our Annual Letter during August.
Organisational environment	We consider that your organisational controls are effective overall with areas for improvement noted in specific areas as set out on page 4
Controls over key financial systems	Based on our work, and the work of your internal auditors, we have determined that the controls over the key financial systems are generally sound.
Review of internal audit	We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place reliance on internal audit's work on the key financial systems.
Accounts production	The overall process for accounts production is sound with some areas for improvement as noted on page 9.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.** Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11): — **Valuation of PPE** – we determined that the year-end values of PPE are reasonable, but see page 30 for adjusted differences; — **Pensions Liabilities** – we determined that the assumptions and methodology used by the scheme actuary were in totality appropriate and the asset valuation and allocation was reasonable; and — **Faster Close** – we anticipate the accounts being signed off within the statutory deadlines and we have made some recommendations for improvement of the process in future years.

Summary for Audit & Standards Committee (cont.)

Financial statements

We have identified 1 corrected audit adjustment with a total value of £3.2 million. See page 30 for details. These adjustments result in a net increase of £1.1 million in the reported surplus / deficit on provision of services and no movement in the general fund and Housing Revenue Account balance.

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

Value for money arrangements

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

We therefore anticipate issuing an unqualified value for money opinion.

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

- **Delivery of Budgets** – Based on our review of the Authority's savings programme, we found that Council has processes in place to identify and close the funding gap. The council has also been able to demonstrate good Medium Term Financial Plan (MTFP) forecasting, and production of detailed savings plan.
- **Multi-service contract** – We have considered the positive and negative aspects of the Council's arrangements over this contract, in particular the significant variance compared to original contract budget, and the Council's actions to address and mitigate this. On balance we have concluded that we should report an unqualified VFM opinion. However, the issues are not yet fully resolved and there is work for the Council to do to. We would expect to see significant progress over the next three to six months.

See further details on page 25.

Exercising of audit powers

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

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

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

Acknowledgements

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

Section one

Control Environment

Organisational control environment

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

Work completed

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

Key findings

We consider that your organisational controls are effective overall, although we did note some areas for improvement in existence during the audit year as set out below, which have already been reported to the Committee by Internal Audit.

As these areas have already been reported to the Committee and action plans are underway to address them, we will formally not report them again. And as such we will not formally report as recommendations again:

- Capital project appraisal – The Internal Audit Capital Programme report issued in January 2018 noted that the Council's approach to capital programmes failed to include formal evaluation of a capital project before entered into the capital programme, which may result in a negative impact on financial planning. We understand that an action plan is in place to address the issues raised. The Accountancy Manager will submit a Capital Strategy report to cover the issues raised by Internal Audit such that progress can coincide with the next capital programme in January 2019.
- Financial management in relation to the UBICO multi-service contract – this is considered further in our VFM work on page 24.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	2
Communications	3
Monitoring of controls	2

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

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Controls over key financial systems

The controls over the key financial systems are generally sound.

However, there are some weaknesses in respect of authorisation of journals and privileged users on the Council's finance system.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

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

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

Key findings

Based on our work, and the work of your internal auditors, we have determined that the controls over the key financial systems are generally sound.

We noted some weaknesses in respect of individual financial systems that impacted on our audit approach, in particular in relation to the testing over journals, which we adapted to address resultant risks:

— Weakness 1: Lack of authorisation of journals over £100k.

Internal audit included recommendations in their report (titled General Ledger, dated: 23rd April 2018) with regards to this control weakness. They identified that improvements to the control environment are required to ensure only properly authorised journals are accepted and processed and that material journals are subject to prompt finance management review and approval. This has already been raised as a recommendation by Internal Audit and therefore we will not raise ourselves.

— Weakness 2: Number of system privileged users.

A large number of members of the finance team, including the s151 officer, have privileged users rights within the finance system. However, this only applies to access to the Finance system (Agresso) and not the underlying servers and databases.

Recommendations are included in Appendix 1.

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Controls over key financial systems (cont.)

Aspect of controls	Assessment
Property, Plant and Equipment	2
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3
Housing benefits expenditure	3
Business rates income	3
Council tax income	3
HRA rental income	3
Journals and general ledger	2

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

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Review of internal audit

Following our assessment of Internal Audit, we were able to place reliance on their work on the key financial systems.

Background

United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. Additional guidance for local authorities is included in the Local Government Application Note on the PSIAS.

Work completed

The scope of the work of your internal auditors and their findings informs our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards (ISA610) require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Public Sector Internal Audit Standards define the way in which the internal audit service should undertake its functions.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them. We only review internal audit work that has relevance to our audit responsibilities, to effectively scope out other internal audit work from our findings. Our review of internal audit work does not represent an external review against PSIAS, as required at least every five years, which was last performed in 2015.

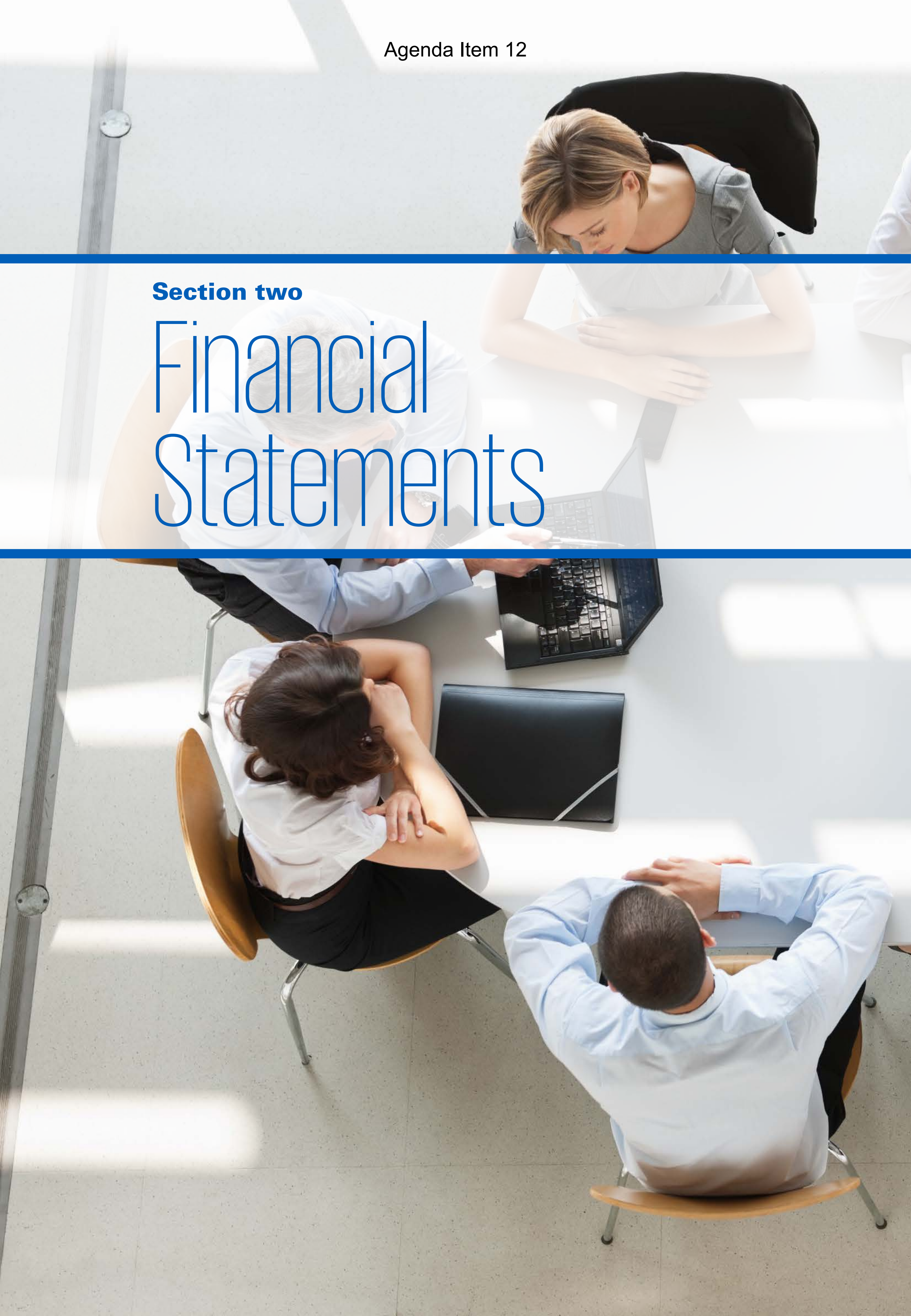
Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit & Standards Committee and regular meetings during the course of the year, we have not identified any significant issues which would prevent us from relying on internal audit's work for 2017/18.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place reliance on internal audit's work on the key financial systems.

Section two

Financial Statements



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Accounts production and audit process

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

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

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

Accounts practices and production process

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

We consider that the overall process for the preparation of your financial statements is adequate.

The areas which you need to pay particular attention to in future audits are the capacity of staff to deal with audit queries within the tighter audit timescale, and the quality of certain year-end working papers, see the following pages.

We consider the Authority's accounting practices appropriate.

Going concern

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

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 23.

Completeness of draft accounts

We received a set of draft accounts on 31 May, in line with the statutory deadline. The Council did however update this with an amended set of accounts provided on 4 June, which incorporated an updated narrative statement. Our audit work is based on this 4 June version. Overall, considering the reduced timeframes, the draft accounts are of good quality with minor amendments and areas for improvement noted in Appendix 2.

Accounts production and audit process (cont.)

Quality of supporting working papers

We issued our Accounts Audit Protocol to the finance team on 2 January 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations.

Overall, the working papers we received were reasonable. We did experience some difficulties in reconciling a number of working papers to the balances within the accounts; in particular, the working papers on fixed asset and capital accounting, which is a complex area to account for and audit. This included reconciling supporting working papers to the fixed assets movements within the accounts, and we identified some inconsistencies within some of the capital transactions within the accounts, which has led to some minor audit adjustments – see Appendix 2. We suggest that a further review of capital notes prior to accounts publication, and reworking the supporting working papers to ensure that there is a clear audit trail to all the movements in the accounts, may assist to improve quality in this area. We have raised a recommendation in respect of this, see Appendix 1.

Response to audit queries

The Council achieved a reasonable turnaround time for dealing with audit queries in most areas. However we have had some delays in certain areas of the work, which has resulted in the outstanding areas highlighted on page 1.

As highlighted in previous years, there is still room for improvement in this area to ensure sufficient audit responsibility and knowledge over the accounts is shared around the finance team to avoid delays due to requests from multiple auditors building up with key individuals. This is now a more acute issue with shortened deadlines, which necessitates more auditors on site during a compacted period and limited timeframe to leave queries for follow up after the on-site visit. The audit queries could also be reduced by improving working papers to make the reconciliation to the accounts clear and adding supporting annotation to aid auditors as noted above.

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 has increased by £113k following a trend of decreasing in previous years; it is now £183k as at 31 March 2018.

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.

The Council Tax element of the fund has made a surplus of £21k this year and remains in credit overall of £1,157k.

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Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018. 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 2018, the Authority has reported a surplus of £0.2m. The impact on the General Fund has been an increase of £1.6m.

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

01

Management override of controls

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

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

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

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

02

Fraudulent revenue recognition

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

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

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

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

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Specific audit areas

Significant Audit Risks – Authority

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

Risk:

Valuation of PPE

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

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Housing assets are revalued each year in-between full valuations using an index based on local sales. Last year we raised an audit adjustment as the December 2016 Stroud housing index used by the Council had been adjusted down by the Land Registry (due to new sales information) subsequent to the Council having obtained the index from the Land Registry website in February. This resulted in a material misstatement. There is a risk of this issue arising again in future depending on when this index is obtained, which may be reduced if a less local index (e.g. Gloucestershire) is used as the higher total sales mean that each new sale has a lower impact on the index.

The Council is considering options to avoid this in 2017/18, for example, by using an index covering a wider area that is hopefully less volatile, or by using an index from earlier in the year which has a reduced risk of moving (but does result in a risk if there is significant price fluctuation between the index date and the year-end).

Our assessment and work undertaken:

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

For assets that had been revalued during the year, we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We reviewed the index used for the revaluation of housing assets, which was the Land Registry index for Gloucestershire as at October 2017 (7.1%). The Authority therefore changed both the index date and the geographical area of the index.

Using the Gloucestershire index, rather than the Stroud-only index as last year, reduces the risk of volatility as described above, and we agree with that approach.

Both management and ourselves would prefer an index date closer to year-end, as there is a risk of movement in the market during the period between the index date and the year-end. However, we acknowledge the need to prepare accounts to tighter deadlines, against a backdrop of indices that take time to settle. We have agreed that using the December index of 7% is a reasonable compromise between proximity to year-end and accounts preparation deadlines and accuracy of the index, especially as the valuation is an accounting estimate that is always liable to change. Using this index results in an unadjusted difference of £253k (see Appendix 2). There is to be a full valuation of housing properties for the 2018/19 accounts.

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

As a result of this work we determined that the valuations of PPE are reasonable. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 15.

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Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Gloucestershire County Council Local Government Pension Scheme, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson, the Scheme Actuary. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (Grant Thornton) over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and reperformed this allocation. As a result of this work we determined that the assumptions and methodology used by the scheme actuary were in totality appropriate and the asset valuation and allocation was reasonable. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 16. Note that at the timing of writing, we have a few final inquiries regarding pensions balances that are with management, we expect these to be resolved before the Committee.

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Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Faster Close

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

During 2016/17, the Authority continued its preparation for these revised deadlines and advanced its own accounts production timetable. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met, including ensuring that all audit queries and accounts updates are resolved in accordance with the new deadline for signing.

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

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

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

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

Our assessment and work undertaken:

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

We received draft financial statements in line with the statutory deadline of 31 May 2018. The quality of this draft was reasonable and consistent with previous years, but with a slightly higher number of adjustments identified.

Our more detailed findings in relation to accounts preparation are detailed on page 9.

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Judgements

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

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	The provisions balance is immaterial. There has been a reclassification from accruals to provisions this year of £624k. This is in relation to a disputed outstanding amount for renewable heating works carried out in 2014 whereby the council has questioned the VAT applied to the invoice but is yet to resolve this with the contractor. The liability was recognised in previous periods but the balance has been transferred to provisions to reflect increased doubt in timing of payment.
Business Rates provision	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The Council has increased its provision this year by £150k following a review of appeals.
Property Plant & Equipment: HRA Assets	3	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an internal valuation expert to provide valuation estimates. We have considered the qualifications and experience of the valuer and consider them to be appropriate. The resulting increase of 7.1% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information. We have raised an audit adjustment in relation to the historic treatment of Assets under construction (AUC). Valuations of AUC were previously only re-assessed once development projects were completed, which results in large potential write-offs being carried forward into future years. Management is correcting this treatment in the current year accounts and going forward.
Property Plant & Equipment: Non-HRA Assets	3	3	We have reviewed the asset valuations during the period and found them to be reasonable and performed using an appropriate methodology.

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Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities	3	3	The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.5% change in the discount rate would change the net liability by £12.8 million. The actual assumptions adopted by the actuary fell within our expected ranges with the exception of the discount rate as set our below:

Assumption	Actuary Value	KPMG benchmark	Assessment
Discount rate	2.70%	2.5%	6
Pension increase rate	2.4%	2.16%	1
Salary Growth	CPI +0.3%	CPI + 0% to 2%	3
Life expectancy Current male / female Future male/female	 22.4/ 24.6 24.0/ 26.4	 22.1/23.9 23.5/25.4	1
Overall combination of assumptions			3

Although the discount rate in isolation is outside the optimistic end of our acceptable range, this is offset by the cautious inflation assumption. The net discount rate (difference between discount rate and inflation) is therefore comfortably within our e acceptable range.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit & Standards Committee on 26 July.

Audit differences

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

The final materiality (see Appendix 3) for this year's audit was set at £1.5 million. Audit differences below £75,000 are not considered significant.

Our audit identified one significant audit difference, which we set out in Appendix 2. This has been adjusted in the final version of the accounts

There is one uncorrected difference relating to the valuation of HRA dwellings if the December index was applied rather than October (see12).

The tables below illustrate the total impact of audit differences on the Authority's movements on the General Fund and Housing Revenue Account for the year and balance sheet as at 31 March 2018. The net impact on the General Fund and Housing Revenue Account as a result of audit adjustments is nil, as statutory entries reverse the impact of the adjustments made to Assets Under Construction.

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 2017-18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 2. We understand that the Authority will be addressing these where significant.

Movement on the General Fund & HRA 2017-18

£m	Pre-Audit	Post-Audit	Ref[1]
Surplus on the provision of services	0.2	1.3	1
Adjustments between accounting basis and funding basis under regulations	0.9	(0.2)	1
Increase in General Fund and Housing Revenue Account	**1.1**	**1.1**	

[1] See referenced adjustments in Appendix 2.

Balance Sheet as at 31 March 2018

£m	Pre-Audit	Post-Audit	Ref[1]
Property, Plant & Equipment	323	320	1
Other long term assets	5	5	
Current assets	46	46	
Current liabilities	(15)	(15)	
Long term liabilities	(147)	(147)	
Net worth	**211**	**208**	
General Fund & HRA	24	24	
Other useable reserves	12	12	
Unusable reserves	175	172	1
Total Reserves	**211**	**208**	

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Proposed opinion and audit differences (cont.)

Annual governance statement

We have reviewed the Authority's 2017-18 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 and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority. We have made some minor suggestions for improvement in clarity and presentation.

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Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Stroud District Council for the year ending 31 March 2018, 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 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 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.).

Our report contains the necessary communications in respect of these matters.

Section three

Value for Money Arrangements

Specific value for money risk areas

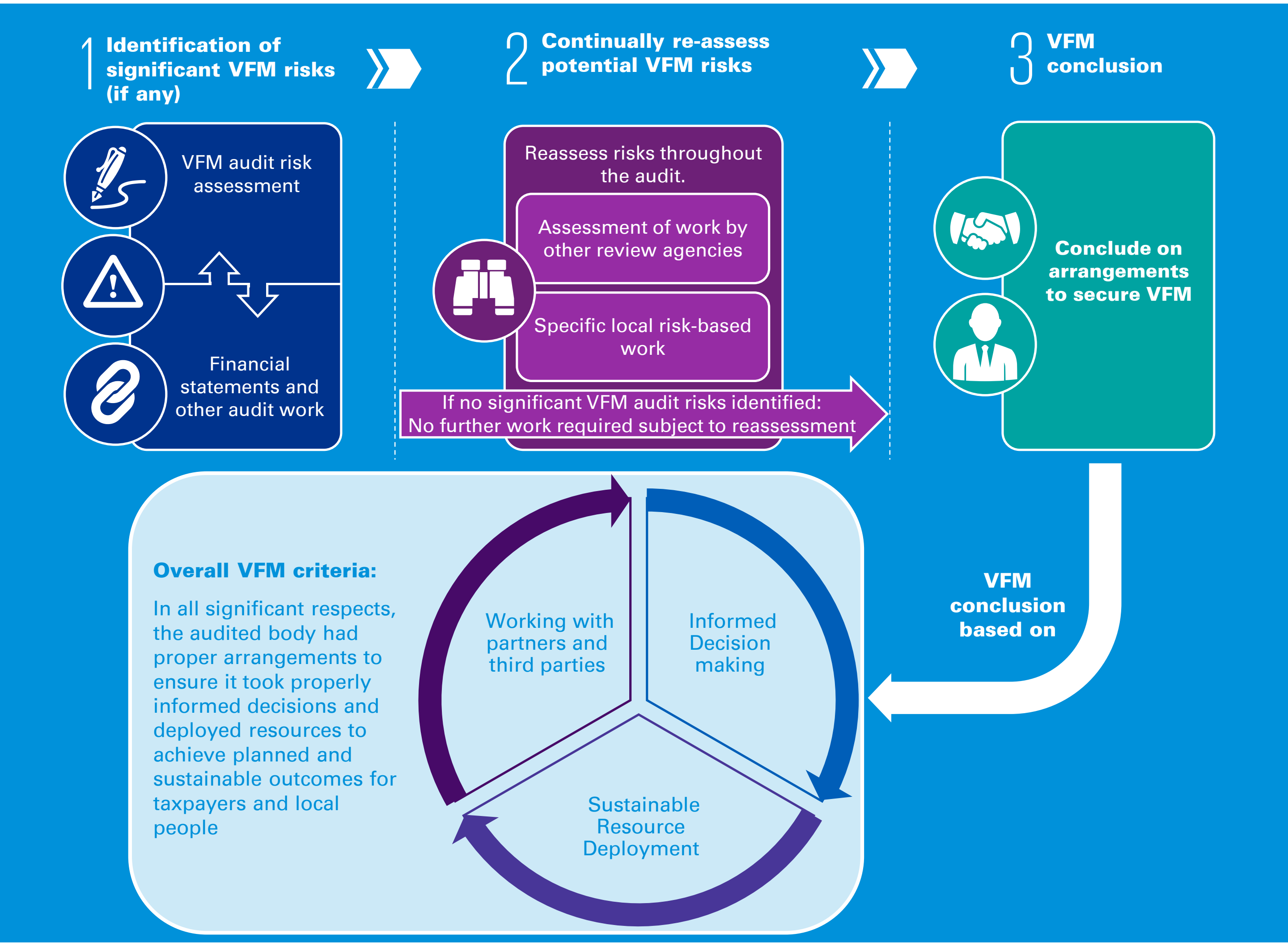
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

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

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

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



Specific value for money risk areas (cont.)

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.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets	✓	✓	✓
Multi-service contract	N/A 16-17 decision	✓	✓

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

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

Specific value for money risk areas (cont.)

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

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

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

Risk:

Delivery of budgets

In its 2017/18 budget, the Authority budgeted to draw down £567k from reserves to address financial pressures, in addition to a further £25k of budgeted savings. The 31 August 2017 forecast shows that the Authority will deliver an underspend of approximately £319k.

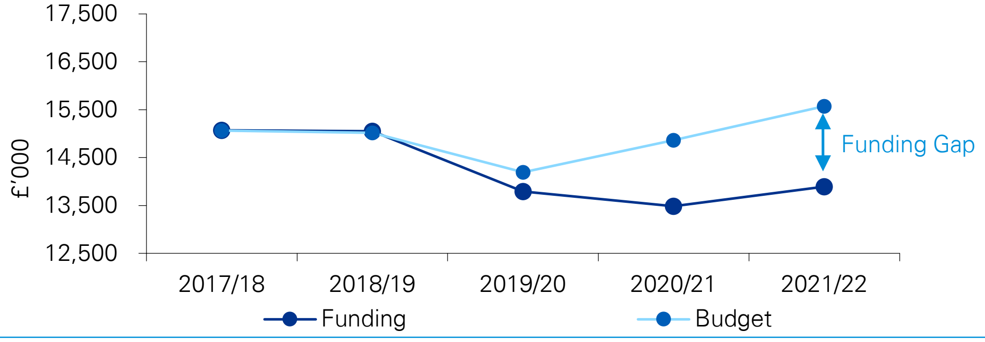
The Authority's proposed budget strategy presented to members in January 2018 highlighted continuing financial uncertainty and volatility, in particular relating to the loss of Revenue Support Grant (RSG) from 2018/19 (turning into a negative tariff in 2019/20) and to the funding streams outside the multi-year settlement, as well as service cost pressures such as the multi-service contract. This budget strategy highlights planned savings of £1.3m in 2018/19 and additional savings of £6m over the following three years, the majority of which have already been agreed but will require regular review and reporting. The plan also included utilisation of general fund reserves of £3.4m over this four year period.

This need for savings and utilisation of built-up reserves will continue to have a significant impact on the Authority's financial resilience.

Our assessment and work undertaken:

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority reported an overall breakeven position on its net expenditure budget for 2017/18 after the net contribution of £17k from the General Fund and earmarked reserve. This enabled the General Fund balance to remain at £18.4 million as of 31 March 2018.

The Authority's MTFP details a balanced budget for 2018/19 including savings of £250k in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, and increasing use of reserves as detailed above. We reviewed the Authority's saving programme and found that the Council has processes in place to identify and close the funding gap, although the use of reserves is not a sustainable tool to balance budgets and the Council will need to address this in the within the next few years to remove this dependency before reserves are depleted.



Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

Multi-service contract

A recent internal audit report has highlighted that improvements are required relating to the governance and contract management processes of the multi-service contract for the provision of waste/recycling, street cleaning, maintenance and fleet management services.

Subsequent to this report (which was issued on a consultancy basis and thus had no assurance rating), an action plan has been developed to implement these improvements, which mainly related to establishment of clear roles and responsibilities in relation to governance, establishment of agreed actions under the contract and regular monitoring of these actions, regular review and update of contract risks and mitigating controls, more effective financial and KPI reporting from Ubico, and improvements to the service specification detail.

Our assessment and work undertaken:

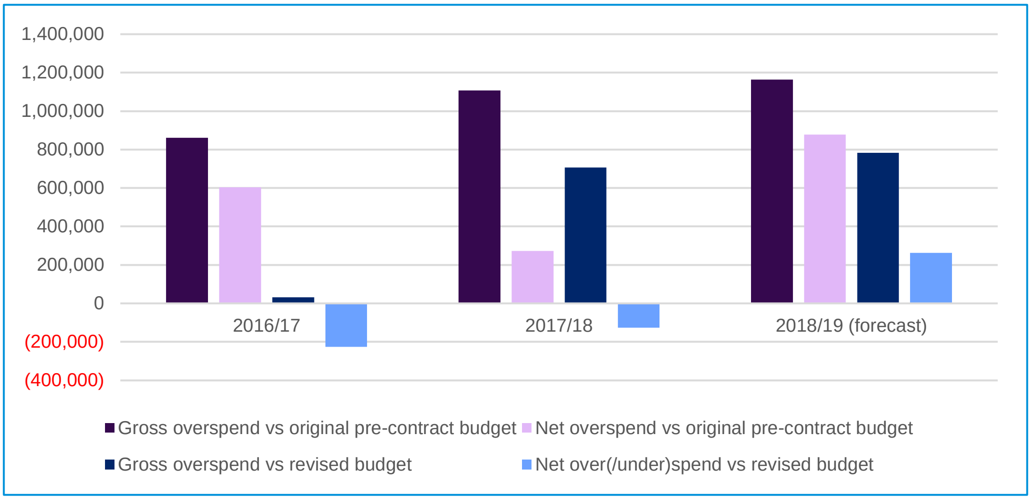
We have reviewed internal audit findings and discussed with internal audit and management to understand the quantum of the issues raised and progress against the actions raised in the report.

The Contract with Ubico began on 1 July 2016. During the 2016-17 financial year, an overspend vs budget of approximately £430k occurred, due to a combination of overspend by Ubico (£266k) and additional services purchased. The Council was only able to obtain limited high level support from Ubico for this £266k overspend.

As a result of this, the Council increased the multi-service contract budget in the 2017/18 budget by £400k, and the finance department has taken more active involvement in monitoring the contract finances alongside the public spaces team.

There is still progress to be made. The 2017-18 final outturn included an net overspend of £273k against the original 2016-17 contract budget (which was fully covered by £400k budget increase), and the officer responsible for managing the contract within the public spaces team has left the council, which has meant that formal tracking of the internal audit action plan has not been performed, and some of the actions are behind schedule.

An analysis of the contract performance by year is below, showing the continuing expected increase in net expenditure:

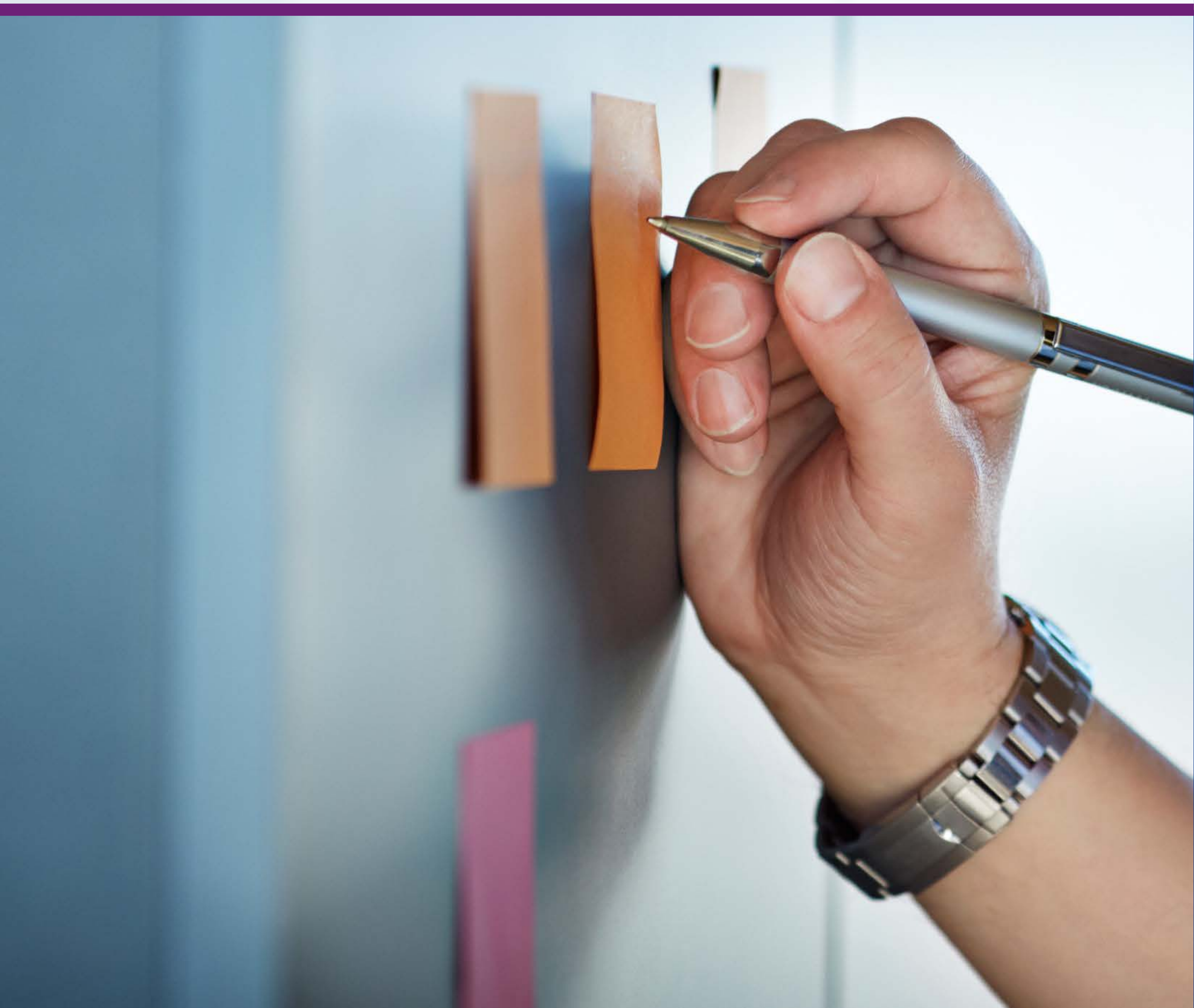


Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	Multi-service contract (cont)
Our assessment and work undertaken:	However, the actions taken by the finance team are positive in establishing more financial control over the contract. Monthly reports are now received from Ubico detailing the spend against budget, and the finance team is actively monitoring the reason for variances. Going forward, more regular meetings are being held with Ubico to enable closer tracking of costs (as well as regular internal meetings involving members), and the Council is working with Ubico to develop a 5 year forecast to take into account costs such as new vehicles and housing developments. Based on our work performed, whilst there is clearly still work to be done regarding the issues raised by Internal Audit and to achieve a position where minimal variances against cost occur, the Council has clearly made progress and the steps put in place during 2017/18 and going forward should enable officers to track variances on a timely basis, and hopefully avoid any unplanned variances of the level experienced to date. In conclusion there are some negative and positive aspects in relation the multi-service contract to date: negatives in the fact that there has been a significant additional cost since the original contract budget, and the financial position is still not certain; but positives in the commissioning of an internal audit review (albeit with a corresponding negative in that actions were not carried out promptly), the formal set-aside of additional budget to respond to the risk, and greater involvement by central finance in order to gain better financial control over the contract. We have considered the impact of this on our VFM opinion. On balance we have concluded that we should report an unqualified VFM opinion. However, the issues are not yet fully resolved and there is work for the Council to do to. We would expect to see significant progress over the next three to six months. The Council should now continue working with Ubico to establish more detailed financial reporting and forecasting to be provided from Ubico to facilitate ongoing monitoring and accurate budget setting. The Council should also continue to look at the levels of service in the context of reducing Council reserves, as increases to the budget to cover overspends are unlikely to be sustainable in future years. The Council should also look carefully at the way it responds to internal audit reports. There was a delay of several months between the internal audit team issuing its draft report and management responding to the report and recommendations. There are also recommendations still outstanding more than six months after the report was finally agreed and a year after the fieldwork took place.

Appendices



Agenda Item 12

Key issues and recommendations

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

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

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

No.	Risk	Issue & Recommendation	Management Response
1	2	***Quality of working papers*** Certain supporting working papers, in particular in relation to fixed assets, were difficult to tie to the balances and movements to the accounts and resulted in an increased number of auditor queries and some adjustments required to the accounts. ***Risk*** This results in increased pressure on staff due to audit queries and risks delays to the accounts signing due to the lack of flexibility in the faster close deadlines for accounts preparation and audit completion ***Recommendation*** The Council should review its working papers during the year in advance of the accounts closure process to consider how these can be improved to make it clear how these reconcile to the accounts, for example setting out all the revaluation movements within the fixed asset note in the revaluations working papers, and how these could be annotated to aid auditors in understanding the working papers.	This is a complex area, and improvements have been made year on year, and we will seek detailed feedback from KPMG as to the remaining shortcomings to improve this further for the 2018/19 audit year. We will also make recommendations around the scheduling of this work to allow auditors sufficient time to undertake their checks. ***Responsible Officer*** Graham Bailey – Principal Accountant ***Implementation Deadline*** For completion by October 2018

Agenda Item 12

Key issues and recommendations (continued)

Priority Rating for Recommendations

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

No.	Risk	Issue & Recommendation	Management Response
2	2	***Robustness of Accounts Preparation Process*** The accounts preparation process and audit queries are heavily reliant on a small number of key individuals. ***Risk*** Heavy reliance on a small number of key contacts can result in severe delays or backlog if an individual is not available during a part of the audit preparation or audit, and may result in increased risk of error in preparation due to the tighter faster closing deadlines. ***Recommendation*** The Council should look at further re-allocating key accounts preparation areas to other members of the finance team in order to increase robustness and resilience in accounts preparation, the ability of other staff to deal with audit queries, and to improve the scope for internal reviews.	The finance team have been proactive in managing the risk identified here alongside the faster closure requirement. Closedown tasks have been allocated across the wider finance teams and deadlines have been reviewed and brought forward where possible to reduce the pressure and risk of delays. However, with a small finance team it is always difficult to maintain a flexible and responsive service to the council alongside the earlier closure process. The Accountancy Manager will review the resource allocation and closure timetable and take steps where possible to further mitigate this risk. ***Responsible Officer*** David Stanley – Accountancy Manager ***Implementation Deadline*** March 2019
3	3	***Robustness of Accounts Preparation Process*** Several members of the finance team, including the s151 officer, have privileged users rights within the finance system. However, this only applies to access to the Finance system (Agresso) and not the underlying servers and databases. ***Risk*** Excessive numbers of privileged users outside the IT department may increase the risk of unauthorised access to the system. We would not usually expect the s151 officer to be a privileged user. ***Recommendation*** We recommend that the Council implements a formal procedure to periodically review its privileged users and consider if the s151 officer requires continuing level of access.	The number of privileged users will be reviewed in light of the Workforce Plan review of the Finance Team ***Responsible Officer*** David Stanley – Accountancy Manager ***Implementation Deadline*** December 2018

Agenda Item 12

Key issues and recommendations (continued)

Priority Rating for Recommendations

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

No.	Risk	Issue & Recommendation	Management Response
3	1	***Ubico*** There is an ongoing risk of overspend and uncertainty relating to the multi-service contract as detailed on page 25. ***Risk*** Uncertainty may result in financial instability, especially in the context of reducing Council reserves, as increases to the budget to cover overspends are unlikely to be sustainable in future years. ***Recommendation*** The Council should continue working with Ubico to establish more detailed financial reporting and forecasting to be provided from Ubico to facilitate ongoing monitoring and accurate budget setting.	The Section 151 Officer is liaising with the Senior Management Team and the Chief Internal Auditor regarding this recommendation. A formal response will be provided on Monday 23rd July 2018. ***Responsible Officer*** David Stanley – Accountancy Manager ***Implementation Deadline*** 20 July 2018
4	1	***Responsiveness to internal audit reports*** There was a delay of several months between the internal audit team issuing its draft report over the multi-service contract and management responding to the report and recommendations. There are also recommendations still outstanding more than six months after the report was finally agreed and a year after the fieldwork took place, in part due to the officer who was originally responsible leaving the authority. ***Risk*** Failure to respond promptly to internal audit recommendations increases risk around the overall control environment and the ability of the Council to meet its strategic objectives ***Recommendation*** The Council should review the way it responds to internal audit reports and ensure that all recommendations are responded to promptly and responsibility for resultant action plans is clearly known (and handed over effectively if officers leave).	The Section 151 Officer is liaising with the Senior Management Team and the Chief Internal Auditor regarding this recommendation. A formal response will be provided on Monday 23rd July 2018. ***Responsible Officer*** David Stanley – Accountancy Manager ***Implementation Deadline*** 20 July 2018

Agenda Item 12

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 2017-18 draft financial statements.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Stroud District Council's financial statements for the year ended 31 March 2018. These have been corrected in the final version of the accounts.

Table 1: Adjusted audit differences – Authority (£'000)

	No	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserve	Basis of audit difference
17/18	1	Dr revaluation loss 3,230	Cr general fund 3,230 Dr capital adjustment account 3,230	Cr Assets under constructi on 3,230			Certain Housing development sites were complete or partially complete at year-end and assets transferred into in-use housing, but the corresponding asset under construction value had not been adjusted sufficiently to take account of this.
16/17	2	Cr CY revaluation loss 4,304	Dr b/f capital adjustment account 4,304				The prior year comparatives have been adjusted to reflect a similar error present in last year's accounts. This revaluation loss had been booked in this year's draft accounts but relates to 2016/17 and given the value, we concluded that a prior period adjustment was required. The adjustment is related in the comparatives in the accounts, this adjustment shows the net impact on this year.
		Cr 1,074	**Dr 4,304**	**Cr 3,230**			**Total impact of adjustments**

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 2018. These differences are individually below our materiality level of £1.5m. 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 – Authority (£'000)

No	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Cr Housing 253		Dr Revaluation reserve 253	Difference between October housing valuation index used by the Council and December index agreed as most appropriate between KPMG and management.

Audit differences (cont.)

Presentational adjustments

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

Whilst the majority of these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table.

It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 5: Presentational adjustments – Authority

No.	Basis of audit difference
1	Pensions Note 41 – The reconciliation of scheme assets table has been omitted and the reconciliation of scheme liabilities has been erroneously duplicated instead.
2	Property, Plant and Equipment Note 14 – The line for disposal of accumulated depreciation balances (£325k) was erroneously labelled as impairment losses. This also impacts on the presentation of the Capital Adjustment Account. In addition current year impairment had been put through the depreciation section of the note resulting in a "stranded" impaired balance relating to assets which are now fully constructed and in use – this has been adjusted to go through the cost section instead.

Materiality and reporting of audit differences

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

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

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

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

We used the same planning materiality reported in our *External Audit Plan 2017-18*, issued in January 2018.

Materiality for the Authority's accounts was set at £1.5 million 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 any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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

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

Required communications with the Audit & Standards Committee

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

Required Communication	Commentary
Engagement lead	The engagement lead for Stroud District Council has changed since the Audit Plan due to a change in roles within the firm. Ian Pennington has taken over from Darren Gilbert. Ian is familiar with the council, having been engagement lead prior to Darren, and Ian and Darren have had a detailed handover.
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified 1 adjusted audit difference. This adjustment results in a net decrease of £3.2m million in the reported surplus / deficit on provision of services and a prior year adjustment decreasing the reporting surplus/deficit by £4.3m . See page 30 for further details.
Unadjusted audit differences	The net impact of unadjusted audit differences on the surplus/deficit on provision of services would be nil. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor’s report, individually or in aggregate. See Appendix 2 for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit & Standards Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority’s internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report. We have also communicated to management all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority’s Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor’s report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Required communications with the Audit & Standards Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 5 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 16.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF STROUD DISTRICT COUNCIL

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

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

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

— General procedures to safeguard independence and objectivity;

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

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

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

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

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

Declaration of independence (cont.)

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

Summary of fees

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

	2017-18 £	2016-17 £
Audit of the Authority	51,975	51,975
Total audit services	**51,975**	**51,975**
Audit related assurance services	5,000	5,000
Mandatory assurance services	7,590	7,590
Total Non Audit Services	**12,590**	**12,590**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.24:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

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

Declaration of independence (cont.)

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

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Pooling of Housing Capital Receipts Return and HCA Social Housing Assistance agreed upon procedures	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	0	5,000
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	7,590

Non-audit services provided during the period do not exceed the relevant PSAA *de minimis* threshold individually or in aggregate and therefore have not required PSAA approval. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

KPMG LLP

Appendix 6:

Agenda Item 12

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £51,975 plus VAT, which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for September to November 2018. The planned scale fee for this is £7,590 plus VAT (£7,590 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £5,000 plus VAT (£5,000 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Stroud District Council)	51,975	51,975
Total audit services	**51,975**	**51,975**
Mandatory assurance services		
Housing Benefits Certification (work planned for September to November)	7,590	7,590
Total mandatory assurance services	**7,590**	**7,590**
Audit-related assurance services		
Pooling of Housing Capital Receipts (work planned for October)	3,000	3,000
HCA Social Housing Assistance agreed upon procedures (work planned for October)	2,000	2,000
Total audit-related assurance services	**5,000**	**5,000**
Total non-audit services	**12,590**	**12,590**
Grand total fees for the Authority	**64,565**	**64,565**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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