



Annual Audit Letter 2017/18

Stroud District Council

August 2018

A group of business professionals in a meeting, looking at documents. The image is split into two horizontal sections by a blue line. The top section shows the heads and shoulders of several people, including a woman with dark hair and a man with grey hair, all looking down. The bottom section shows a man in a dark suit and red tie pointing at a document, with other people's hands and documents visible in the foreground.

Section one

Summary for Audit & Standards Committee

Summary for Audit & Standards Committee

This Annual Audit Letter summarises the outcome from our audit work at Stroud District Council ("the Authority") in relation to the 2017-18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements that are material to our opinion on the financial statements as a whole. 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.

We report to the Audit & Standards Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £75,000.

We identified 1 corrected audit adjustment relating to the timing of the the recognition of revaluation losses on housing developments. This adjustment resulted in a net increase of £1.1 million in the reported surplus / deficit on provision of services for 2017/18 and no movement in the general fund and Housing Revenue Account balance. The adjustment also resulted in a decrease of £4.3m on the previously reported 2016/17 surplus/deficit on provision of services.

Our audit work was designed to specifically address the following significant risks:

- **Management Override of Controls** – 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 otherwise unusual. There were no matters arising from this work that we need to bring to your attention.
- **Valuation of Property Plant & Equipment (PPE)** – we determined that the year-end values of PPE were reasonable, following an adjustment made of £3.2m as noted above in relation to the valuation of partially completed housing development sites.
- **Pension 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** – the accounts were signed off within the statutory deadlines and we have made some recommendations for improvement of the process in future years.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Section one:

Summary for Audit & Standards Committee (cont.)

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance, we have confirmed this with the National Audit Office.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

- **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 plans.
- **Multi-service contract** – We 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 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. We would want to see significant progress over the next three to six months.

High priority recommendations

We raised two high priority recommendations as a result of our 2017-18 work:

- The Council should continue working with Ubico to require them to provide more detailed financial reporting and forecasting, which would help the Council with its own ongoing monitoring and accurate budget setting.
- The Council should review the way it responds to internal audit reports. All recommendations should be responded to promptly and responsibility for resultant action plans should be clearly known (and handed over effectively if officers leave).

These are detailed in Appendix 1 together with the action plan agreed by management.

Section one:

Summary for Audit & Standards Committee (cont.)

Certificate

We issued our certificate on 31 July 2018. The certificate confirms that we have concluded the audit for 2017-18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our fee for 2017-18 was £51,975, excluding VAT (2017: £51,975). Further detail is contained in Appendix 3.

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.



Appendices



Appendix 1:

High risk recommendations

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those 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.

Details of lower risk recommendations can be found in our *ISA260 Report 2017-18*.

No.	Risk	Issue & Recommendation	Management Response
1	1	<p>There is an ongoing risk of overspend and uncertainty relating to the multi-service contract as detailed on page 25.</p> <p>Risk</p> <p>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.</p> <p>Recommendation</p> <p>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.</p>	<p>The finance team at Stroud District Council have been working closely with Ubico over the last 12 months. Financial monitoring reports have been received for P2 and P3 so far in 2018/19, with the Senior Accounting Technician, Accountant, and s151 Officer reviewing the financial information for completeness and accuracy. Estimates for the year have been challenged and additional explanations sought.</p> <p>Financial performance is also a standing item at the Environmental Services Partnership Board (EPSB), a quarterly meeting involving senior officers from the Council and Ubico.</p> <p>The Council and Ubico are also addressing the issue of multi-year budgets during 2018/19, with a commitment from Ubico at Director and Shareholder meetings to produce 5-year budgets and forecasts for the Council to facilitate improved financial planning, resource allocation and decision making.</p> <p>Responsible Officer</p> <p>David Stanley – Accountancy Manager</p> <p>Implementation Deadline</p> <p>December 2018</p>



Appendix 1:

High risk recommendations (continued)

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those 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.

Details of lower risk recommendations can be found in our *ISA260 Report 2017-18*.

No.	Risk	Issue & Recommendation	Management Response
2	1	<p>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.</p> <p>Risk</p> <p>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</p> <p>Recommendation</p> <p>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).</p>	<p>An escalation process already exists within the Internal Audit shared service. This allows for delays in responses to draft audit reports and other issues to be reviewed by senior management within the Audit Shared Service. The Chief Internal Audit meets with the s151 officer on a monthly basis, and with the Chief Executive and s151 officer on a quarterly basis.</p> <p>Professional auditing standards are followed by the Internal Audit Shared Service and judgement is exercised by senior management when reports and progress against the audit plan are reviewed. Progress against the audit plan is also reported to the Audit and Standards Committee as part of the regular Internal Audit Monitoring reports.</p> <p>With reference to the Multi-Service contract audit, there were some difficulties in obtaining an agreed management response to the recommendations raised within the consultancy report. This was raised with the service manager on a number of occasions, with the final escalation being to the Director (Customer Services).</p> <p>The Chief Internal Auditor, in consultation with the s151 officer, will review the escalation process followed for this report and provide an update to Audit and Standards committee in October 2018.</p> <p>Responsible Officer</p> <p>David Stanley – Accountancy Manager</p> <p>Implementation Deadline</p> <p>October 2018</p>

Appendix 2:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit & Standards Committee pages on the Authority's website at www.stroud.gov.uk.

Certification of Grants and Returns

This letter summarised the outcome of our certification work on the Authority's 2016-17 grants and returns.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

Interim Audit Letter

The Interim Audit Letter summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017-18 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017-18.

2018

January

February

March

April

May

June

July

August

September

October

Appendix 1:

Audit fees

This appendix provides information on our final fees for the 2017-18 audit.

External audit

Our final fee for the 2017-18 audit was £51,975, which is in line with the planned fee.

Certification of grants and returns

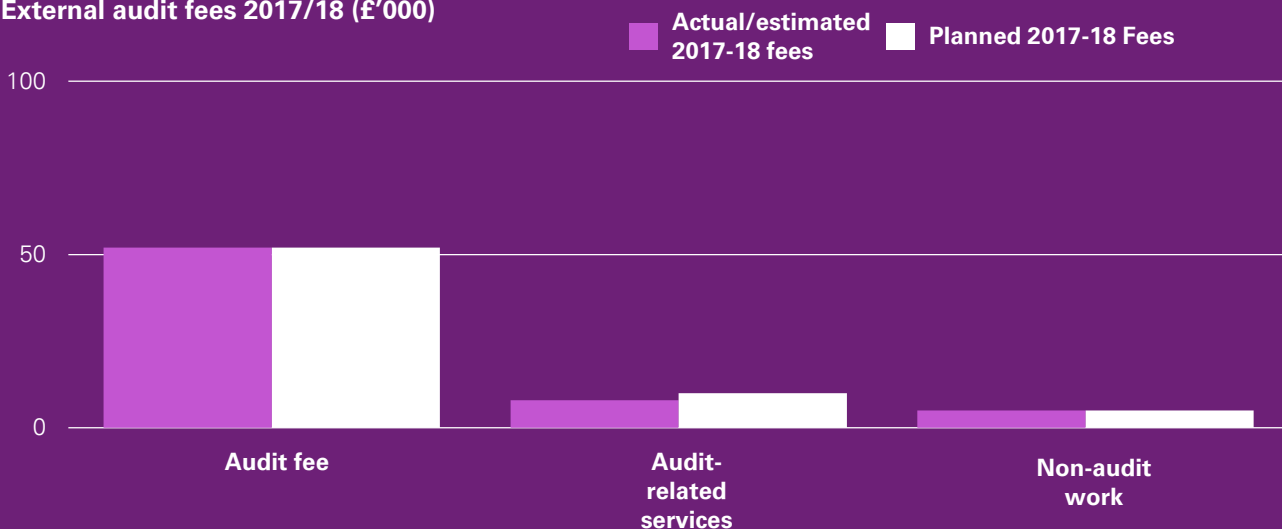
Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The planned fee for this work is £9,900 and the final fee will be confirmed through our reporting on the outcome of that work in January 2019.

We also expect to charge £5,000 for additional audit-related services for the certification of the HCA Social Housing Assistance grant claim and Pooling of Housing Capital Receipts return, which are outside of Public Sector Audit Appointment's certification regime. The work on these is to be performed in October.

Other services

We did not charge any additional fees for other services.

External audit fees 2017/18 (£'000)





The key contacts in relation to our audit are:

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

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

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

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