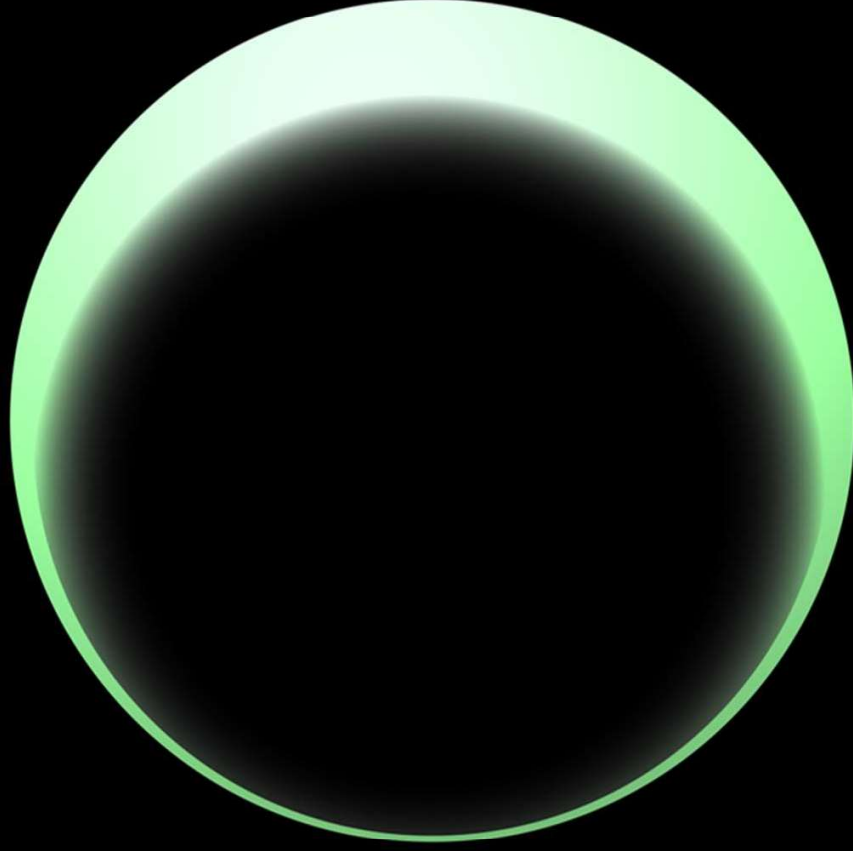


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**Stroud District Council
Interim Audit Update for Audit & Standards Committee
Issued on 20 November 2023**

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Update report to the Audit & Standards Committee – Year 2021/22

We have prepared this update to inform the members of the Audit & Standards Committee of our work since the last meeting in November 2022

Annual Report & Accounts 2021/22

We presented our report on the audit of the 2021/22 Annual Report and Accounts to the Audit & Standards Committee meeting on 29 November 2022.

Since the last meeting, there has been below updates which resulted in revision of financial statements for 2021/22;

1. In advance of signing the 31 March 2022 financial statements an issue arose in relation to Local Government Pension Scheme (LGPS) which has now been concluded and adjustments are made to the financial statements. This LGPS issue relates to the conclusion of the triennial valuation that was completed in March 2023 with a valuation date of the 31 March 2022. As a result of using accurate membership data, material movements were noted in relation to the pension liability.

The conclusion to this has resulted in the Council requesting the actuary to recalculate the LGPS pension liability for 2021/22 which has resulted in an increase of £2.9m in relation to the LGPS pension liability. The Council have now updated the financial statements for 2021/22 to reflect this increase.

We have completed our additional required procedures to verify this increase in liability and we have no issues to report.

2. There were other adjustments as summarised on page 7 and page 8. The Council have now amended the financial statements to correct the errors as summarised on page 8. The impact of unadjusted misstatements on page 7 is not considered material.

Our audit is now substantially completed subject to completion of the following principal matters:

- completion of administrative review notes on audit work from engagement lead;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2022 through to signing.

Update report to the Audit & Standards Committee – Year 2022/23

We have prepared this update to inform the members of the Audit & Standards Committee of our work since the last meeting in September 2023

Annual Report & Accounts 2022/23

Our Audit Plan was presented during the last meeting in September 2023 and our work has progressed in line with that plan.

This report has been prepared based on the substantive audit work completed to mid November 2023 and we are still finalising our audit procedures with respect to our audit of the financial statements, and value for money.

Our audit work so far includes the work on the design and implementation of key controls around significant risks, discussions with management in relation to fraud related risks, substantive testing of audit areas i.e fixed asset additions, expenditure, payroll, and other financial statement areas. Our audit is still progressing, however, we have nothing to report to Audit & Standards Committee in this regard.

There are no changes to significant audit risks and other areas of focus since our last audit plan.

Value for Money

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. The Code of Audit Practice requires specific procedures to be undertaken across the following three areas – Financial Sustainability; Governance and Improving Economy, Efficiency and Effectiveness. We will hold initial discussions with management to commence our work and will be undertaking the majority of this work during the coming months.

Next Steps

We will continue to perform our audit testing so that we can complete our year end audit.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Standards Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

This report should be read alongside our;

- ISA 260 to the Audit & Standards Committee on the audit for the year ended 31 March 2022, circulated in November 2022; and
- Planning report to the Audit & Standards Committee on the audit for the year ended 31 March 2023, circulated in September 2023.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Bristol | 20 November 2023

Appendices



Audit adjustments Unadjusted misstatements

The following uncorrected misstatements have been identified for FY 2021/22 accounts up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Description	Note	Judgemental / Factual	Debit/ (credit) Income and expenditure account £m	Debit/ (credit) in assets / liabilities £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in FY 2021/22 (31 March 2022)					
Impact of Goodwin liability not accounted for in the financial statements in 2021/22	[1]	Judgemental	(0.1)	0.1	-
Revaluation gain incorrectly allocated between CIES and revaluation reserve	[4]	Factual	0.6	(0.3)	(0.3)
Total			(0.5)	0.4	(0.9)
Misstatements identified in FY 2020/21 (31 March 2021)					
Overstatement in provision for housing capital works	[2]	Factual	-	0.6	(0.6)
Impact of Goodwin liability not accounted for in the financial statements in 2020/21	[3]	Judgemental	-	(0.3)	0.3
Total			-	0.3	(0.3)

[1 and 3] The impact of the Goodwin liability should be recognised in 2021/22 as a past service cost in the income and expenditure account. A projected impact is of 0.1% to the Council's defined benefit obligation has been calculated by Deloitte Pension specialists, for a typical LGPS employer. This has been calculated at a £0.2m understatement for the defined benefit obligation as at 31 March 2022 in the current year. When combined with the brought forward £0.3m understatement of the pension liability as a result of Goodwin this results in a £0.1m release to the pension liability.

[2] This was related to housing capital works provision which after being reviewed in last year was concluded as overstatement and no longer required as at the 31 March 2021.

[4] This represents the revaluation gain incorrectly allocated between CIES and revaluation reserve. This also includes the decrease in valuation of certain assets which has not been recognised in PPE.

Audit adjustments Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Description	Note	Judgemental/ Factual	Debit/ (credit) Income and expenditure account in assets / liabilities £m	Debit/ (credit) OCI/Equity £m
Misstatements identified and corrected in FY 22 (31 March 2022)				
Reclassification of credit balances under cash and cash equivalents	[1]	Factual	-	-
Dr. Cash and cash equivalents			-	0.2
Cr. Short term debtors			-	(0.2)
Adjustment to cost and accumulated depreciation in Note 14 of the accounts	[2]	Factual	-	-
Dr. Accumulated depreciation (Fixed assets)			-	0.7
Cr. Cost (Fixed assets)			-	(0.7)
Recognition of fair value gain for other land and buildings	[3]	Judgemental	-	0.6
Recognition of grants received in advance on the face of balance sheet - FY 22	[4]	Factual	-	-
Dr. Short term creditors			-	12.3
Cr. Grants received in advance (Revenue)			-	(1)
Cr. Grants received in advance (Capital)			-	(11.3)
Recognition of grants received in advance on the face of balance sheet - FY 21	[4]	Factual	-	-
Dr. Short term creditors			-	7.6
Cr. Grants received in advance (Revenue)			-	(3.1)
Cr. Grants received in advance (Capital)			-	(4.5)
Adjustment in net pension liability based on revised pension report	[5]	Factual	2.9	(2.9)

Audit adjustments

Corrected misstatements

Misstatements identified and corrected in FY 22 (31 March 2022) - Continued

- [1] This relates to unallocated receipts where the funds are miscoded to Cash and bank GLs instead of short term debtors hence the amount is reclassified to short term debtors.
- [2] This represents the adjustment made in the accounts to reconcile the fixed asset register with Note 14 of the accounts.
- [3] This represents the estimated fair value gain recognised for other land and buildings. The Council has considered the impact of property valuation index movements and accordingly recognised the fair value gain based on these index movements.
- [4] As per the CIPFA guidance, the Grants received in advance balances should be presented separately on the face of Balance Sheet and should not be part of short term creditors. The Council has appropriately updated the Balance Sheet in line with the CIPFA guidance however, the overall liability balance is not changed as it was a reclassification adjustment.
- [5] This represents the adjustment in net pension liability position which are made based on revised pension report.

Corrected disclosure misstatements

Disclosure deficiencies identified and corrected in FY 22 (31 March 2022)

Serial no	Description
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The Note 8 of the financial statement disclose the depreciation as well as revaluation impact of the CIES. There are different lines within Note 8 to show the impact of depreciation and revaluation separately. We have noted that the depreciation expenses line was incorrectly understated by £2.15m and the revaluations of property and assets line was overstated by the same amount. This has now been corrected by the Council within Note 8.

We have identified the exceptions within financial instrument note 18 and accordingly requested management to adjust them in accounts. There were certain balances which as per CIPFA guidance are not in scope of financial instrument but were considered as part of financial instrument balance and therefore agreed with management and corrected.

The lease note was not appropriately included in the accounts while the operating lease commitments were considered material for disclosure. This has now been corrected and Note 17 is included in the financial statements to disclose the lease balances.

Control findings

Control deficiencies and areas for management focus

Observation	Year first communicated, severity	Deloitte recommendation
Fixed assets valuation adjustments	2021/22 	<p>As part of our audit procedures, we have noted multiple audit adjustments related to fixed assets valuation (summarised on page 7 and page 8 above).</p> <p>We recommend management to perform a thorough review of fixed assets valuation adjustments and ensure that these are appropriately reflected in statutory accounts of the Council.</p>

-  Significant deficiencies reported
-  Other matters for attention reported

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Audit quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the public interest to deliver confidence and trust in business.

In July 2023, the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2022/23 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year’s engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairment, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC’s website:

[Audit Firm Specific Reports - Tier 1 audit firms](#) | [Financial Reporting Council \(frc.org.uk\)](#)

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's: actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Improve the effectiveness of the testing of revenue and margin recognition

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- We are establishing a Revenue centre of excellence to support engagement teams in the audit of revenue. The involvement of the centre of excellence will focus on the overall approach to revenue testing, including an end-to-end view of revenue, the risk assessment, planned controls and IT and substantive work and will take place during the key stages of the risk assessment, planning and execution stages of an audit.
- Monthly workshops are held with partners and directors to brief them on the areas of regulatory focus. We also regularly communicate the FRC findings, including those on revenue and margin recognition, to the wider audit practice during the inspection cycle through our weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.
- We held a review of a portfolio of audits in specific industries to evaluate the approach to margin recognition and to ensure teams are consulting with our technical team when required.
- We updated partner and EQCR/EQR review guidance and templates to ensure these reviews considers all revenue testing regardless of risk assessment.

- We have refreshed our internal controls coaching and introduced independent health check reviews on internal controls. Coaching is direct 1-2-1 support tailored to the specific needs of the engagement team. The health check reviews include work performed on controls that address significant, higher and lower risks; and entity level controls, including those relating to revenue.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Improve the audit of cash equivalents and cash flow statements

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- We continue to hold monthly workshops and share weekly technical emails to brief our people on the areas of regulatory focus. These included a focus on auditing cash and cash equivalents.
- We have issued a 'Getting it right FAQs' in relation to cash equivalents testing, updated to include clarified guidance relating to money market funds and alternative procedures when external confirmations are not requested or received.
- Our Business Unit quality community leads led AQR hot topic reminders workshops and these covered cash findings ahead of reporting season to raise awareness of common pitfalls.
- We have refreshed our cash flow statement work programme and issued reminders requiring its use to all audit practitioners.
- We have assessed the training of audit delivery centres and performed additional training for junior team members in the context of common pitfalls. As part of this, a training module was updated to include a cash testing workshop exercise as part of the core audit curriculum which will link to the regulatory findings.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Improve the consistency of the audit of estimates for certain provisions

How we have addressed this area as a firm

To address this finding, we have done, or plan to do, the following:

- Our main annual technical training in 2022 included specific training in relation to the audit of complex estimates and provisions and includes scenario examples for auditing management estimates. Our Engagement Team Based Learning in 2022 (“TechEx Teams”) included a follow-on session focusing on accounting estimates on a community basis to facilitate sharing of practical examples relevant to community.
- Our annual training for 2023 also included a module on the experienced auditor mindset to support our people in ensuring that audit evidence captures the story of the audit process and challenge therein.
- We have issued new templates and support guidance to assist our teams in auditing complex models and evidencing our ‘standback’ assessment.
- We regularly communicate the FRC findings, including a focused communication on avoiding the ‘assumed knowledge’ pitfalls particularly in relation to management estimates, to the wider audit practice during the inspection cycle through our weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.

- Management estimates were included within our ‘Key topics for FY23 audits’ publication in December 2022 providing key messages and links to supporting materials for all teams ahead of reporting season.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Enhance the assessment of impairment reversals

To address this finding, we have done, or plan to do, the following:

- We plan to review our impairment specialist consultation policy to assess whether this should include reference to circumstances where an impairment reversal is identified.
- We have updated the impairment consultation memo to include a prompt on reversal of past impairments and ensure this is considered as part of the audit.
- We held briefings within the impairment specialist community on the AQR findings and the expectation that the specialists include impairment reversals in their review scope where a material reversal has taken place.
- Community Quality Leads are continuously briefed on key findings and reminders to ensure messages are disseminated to more junior grades through busy season including those relating to impairment reversals.
- We delivered a Bitesize learning on impairment reversals.
- We issued updated guidance to help company management understand some common questions on application of IAS 36, including impairment reversals.



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