

Stroud District Council

Report to the Audit & Standards Committee on the 2020/21 audit

Issued on 17 September 2021 for the meeting on 28 September 2021

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our report to the Audit & Standards Committee of Stroud District Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in June 2021.

Status of our Statement of Accounts audit

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

- receipt of IAS19 letters from the Gloucestershire County Council Pension Fund auditors and completion of audit procedures once received;
- completion of work on Property Valuations and finalisation of correspondence with the Council's external valuers;
- completion of work on Covid-19 grants and fees and charges income;
- completion of work on disclosures;
- receipt of final financial statements;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2021 through to signing.

We will provide an oral update at the meeting.

Status of our Value for Money audit

Our Value for Money work is on-going, and will be reported before 30 November 2021 in our Auditor's Annual Report, which is within the three month timeframe allowed under the National Audit Office Auditor Guidance Note 3.

We have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going.

Conclusions from our testing

- The key judgements in the audit process related to:
 - accounting for pension liabilities;
 - valuation of property assets; and
 - Classification of agent and principal relationship for Covid-19 grant funding

The above work is still in progress and we will conclude on these items.

Introduction

The key messages in this report (continued)

Conclusions from our testing (continued)

- We have not identified any significant audit adjustments or disclosure deficiencies at the time of this report. However, items may be identified on completion of the outstanding items.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

Narrative Report & Annual Governance Statement

- We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.
- The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.
- We have raised minor comments on the Narrative Report and Annual Governance Statement and are waiting on receipt of the final version.

Duties as public auditor

- We did not receive any queries or objections from local electors this year.
- The publication of the Statement of Accounts for inspection is a legal requirement.
- We have not identified any matters that would require us to issue a public interest report.
- We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

Whole of Government Accounts

- The Council is not a sampled component for WGA reporting.
- We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.

Acknowledgement

- We would like to take this opportunity to thank management and the team for their assistance and hard work throughout during the audit.

Michelle Hopton
Audit Lead

Responsibilities of the Audit & Standards Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit & Standards Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

We use this symbol to highlight areas of our audit where the Audit & Standards Committee needs to focus attention.

As a result of regulatory change in recent years, the role of the Audit & Standards Committee has significantly expanded. We set out here a summary of the core areas of Audit & Standards Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit & Standards Committee in fulfilling its remit.

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Oversight of external audit

Integrity of reporting

Internal controls and risks

- Review the internal control and risk management systems.
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.








- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, provide advice in respect of the fair, balanced and understandable statement.

- Monitor and review the effectiveness of the internal audit activities.

Quality indicators

Impact on the execution of our audit

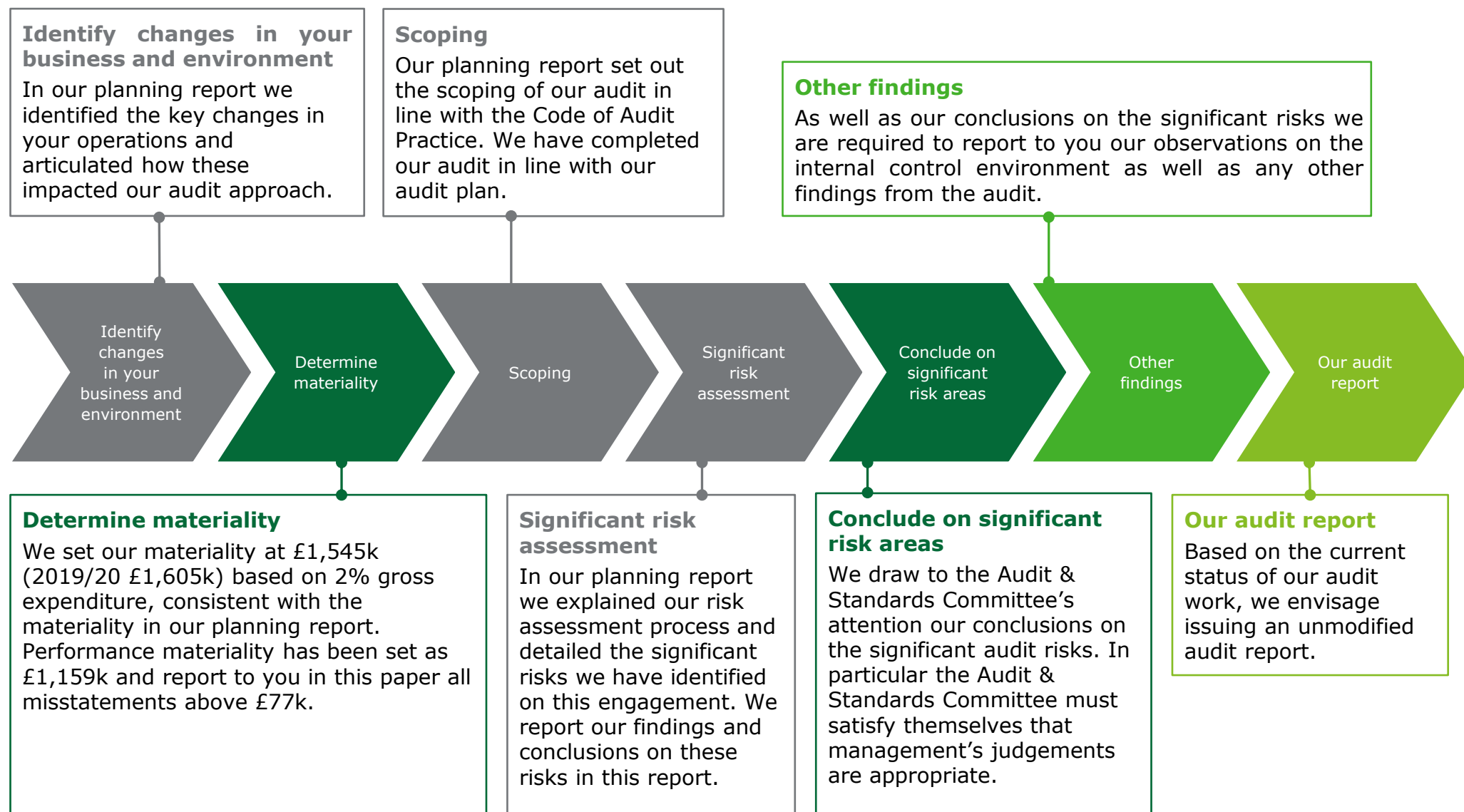
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements		Accounting judgements (e.g. property revaluations, pension assumptions and Covid-19 grant treatments) were communicated to the audit team promptly.	Page 4
Adherence to deliverables timetable		There were delays to some deliverables including delays to the returning of audit evidence for samples. This was primarily due to capacity and the increased volume of queries as a result of changes in audit approach to respond to the Covid-19 pandemic.	-
Access to finance team and other key personnel		The finance team made every effort to make themselves available throughout the audit.	-
Quality and timing of Audit & Standards Committee papers		No issues identified.	-
Quality of draft financial statements		The draft financial statements included areas that required clarification additional narrative and other minor amendments.	-
Response to control deficiencies identified		Control deficiencies have been discussed with management and accepted where no mitigating controls exist.	Page 17
Volume and magnitude of identified errors		Low volume and magnitude of identified errors.	Page 24

 Lagging  Developing  Mature

Our audit explained

We tailor our audit to your business and your strategy



Significant Risks and Areas of Audit Focus

Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Significant risks							
Completeness of Creditors				Satisfactory		Satisfactory	9
Management override of controls				Satisfactory		Satisfactory	10
Area of Audit Focus							
Pension liability valuation				Satisfactory		Satisfactory	12
Property Valuations				Satisfactory		Satisfactory	13
Covid-19 grants				Satisfactory		Satisfactory	14



Inconsistent



Minor differences



Consistent



Controls approach adopted

Assess design & implementation

Significant risks

Completeness of Creditors

Risk identified	<p>Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of creditors.</p> <p>For 2020/21, the Council approved a balanced budget. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals.</p>
Deloitte response and challenge	<p>We have completed the following procedures:</p> <ul style="list-style-type: none">• Assessed the design and implementation of the controls in relation to recording completeness of creditors;• Performed focused testing in relation to the completeness of creditors by completing unrecorded liabilities testing; and• Reviewed the year on year movement in accruals and investigated any significant movements.
Conclusion	<p>Our internal quality assurance procedures are ongoing in this regard at the time of the report. To date we have no matters to bring to the attention of the Audit & Standards Committee. We will provide a verbal update to the committee on the completion of these procedures.</p>

Significant audit risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

Deloitte response and challenge

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that:

- The Council's results throughout the year were projecting overspends in operational areas, with a year-end position of £4,050k net expenditure. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Significant transactions

- We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.
-

Significant audit risks (continued)

Management override of controls

**Deloitte
response
and
challenge****Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We reviewed the accuracy of prior year estimates.
- We assessed the design and implementation of controls relating to significant management estimates, in accordance with ISA540.

Conclusion

Our internal quality assurance procedures are ongoing in this regard at the time of the report. To date we have no matters to bring to the attention of the Audit & Standards Committee. We will provide a verbal update to the committee on the completion of these procedures.

Other areas of audit focus

Pension liability valuation

Risk identified

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Gloucestershire County Council Pension Fund, which is part of the Local Government Pension Scheme.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2021, this totalled £51.2m, an increase from £39.1m in 2019/20. As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated.

Deloitte response and challenge

We are completing the following procedures:

- We obtained a copy of the actuarial report for the Council produced by Hyman Robertson, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures.
 - We reviewed the disclosures made in the Statement of Accounts against the requirements of the Code.
 - We are liaising with the audit team of Gloucestershire County Council Pension Fund, Grant Thornton, to obtain assurances over the information supplied to the actuary in relation to the Council.
 - We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
 - We reviewed and challenged the assumptions made by Hyman Robertson, including benchmarking as shown in the table on the following page.
 - We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
 - As this has been identified as a significant estimate under ISA540, we are assessing the design and implementation of controls around the pension liability valuation.
-

Conclusion

At the time of the report, we have identified that no adjustment has been made by the actuary in relation to the Goodwin judgement, resulting in a judgemental misstatement in the region of 0.1% to 0.25% of the Council's defined benefit obligation. This is discussed further on page 24.









In addition, we are awaiting receipt of information from Gloucestershire County Council Pension Fund auditors. We will provide a verbal update on progress to the committee.

Other areas of audit focus (continued)

Pension Liability Valuation

Review of assumptions used by actuary

As part of our testing, we reviewed the assumptions used by the actuary and have set out below our assessment of the assumptions used in the IAS19 valuation.

Assumption	Council	Benchmark	Deloitte Assessment	Assessment key
Discount rate (% p.a.)	2.00%	1.95% - 2.15%		In reasonable range
Retail Price Index (RPI) Inflation rate (% p.a.)	3.30%	3.60% - 3.15%		Towards limit of reasonable range
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.85%	Determined reasonable for the rates used.		Optimistic or Prudent
Salary increase (% p.a.) (over CPI inflation)	0.30%	In line with that used in the most recent funding valuation.		
Pension increase in payment (% p.a.)	2.85%	In line with CPI assumption		
Pension increase in deferment (% p.a.)	2.85%	In line with CPI assumption		
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.90	Within Threshold – close to Prudent Range		
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	22.90	Within Threshold – close to Prudent Range		

Other areas of audit focus

Valuation of property assets

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

The Council held £330.4m of property assets at 31 March 2021, an increase of £13.0m when compared to 31 March 2020. The Council updates the valuation of its properties using a rolling revaluation programme. In 2020/21, it engaged valuers to carry out a full revaluation on the majority of its property portfolio, using a mix of internal and external reviewers.

In 2019/20, the revaluation reports of externally revalued assets included a material uncertainty paragraph regarding the potential impact of Covid-19 on asset valuations. Due to updated RICS guidance, this does not apply to the revaluation reports received in 2020/21 and therefore we do not expect to make reference to this in our opinion as an Emphasis of Matter.

A revision of ISA540 was undertaken and came into effect for 31 March 2021 year ends for local authorities, impacting our work on property valuations.

Deloitte response and challenge

We have completed the following procedures:

- We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have engaged our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions and inputs used in the valuation of the Council's property assets, in line with the requirements of ISA540;
- As this has been identified as a significant estimate under ISA540, we assessed the design and implementation of controls around the pension liability valuation;
- We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts; and
- We have challenged management's assessment of whether any impairment arises in respect of newly capitalised expenditure.

Conclusion

At the time of the report, we have no matters to bring to the attention of the Audit & Standards Committee. However, work by our DRE specialist is still in progress due to ongoing communication with the Council's valuation experts.

Other areas of audit focus

Covid-19 Grants

Risk identified

During 2020/21, the Council has received additional funding in relation to Covid-19 grants of £47.4m. In addition, there are a number of business support schemes designed to help eligible businesses during the Covid-19 pandemic that are being administered by Councils on behalf of Central Government, the total value of this funding treated as an agency relationship was £34.4m.

We have pinpointed an area of audit focus to the completeness and accuracy of the funding recognised in the Council's financial statements and the completeness and accuracy of the agency arrangement disclosures, where the Council has acted as an agent on behalf of Central Government in administering Covid-19 grants.

The key judgements for management are assessing:

- Any conditions associated with the Covid-19 grants; and
- Whether the Council is acting as a principal or agent in administering the Covid-19 schemes, and how this is subsequently recognised in both the Comprehensive Income and Expenditure Statement and the Balance Sheet.

Deloitte response and challenge

We are in the process of completing the following procedures:

- Assessing the design and implementation of the controls in relation to the accounting treatment of all Covid-19 related funding;
- We reviewed management's working paper on the accounting treatment of each significant grant claim and challenged the appropriateness of the approach adopted.
- Testing a sample of funding for Covid-19 grants and confirming these have been recognised in accordance with any conditions applicable, including appropriate recognition in both the Comprehensive Income and Expenditure Statement and the Balance Sheet;
- Considered the adequacy of disclosures in the financial statements, including accounting policies and where relevant critical accounting judgement and key sources of estimation uncertainty disclosures;
- Testing the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
 - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
 - The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and
 - The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.

Conclusion

At the time of the report, our work in this is ongoing in this area. We will provide a verbal update to the committee on progress.

Value for money

Our work is on-going and will be reported in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Status of our work

Our Value for Money work is on-going, and will be reported before 30 November 2021 in our Auditor's Annual Report, which is within the three month timeframe allowed under the National Audit Office Auditor Guidance Note 3.

We have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going.

Value for money

Our work is on-going and will be reported in our Auditor's Annual Report

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow-up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council's draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work; and
- considered the Council's financial performance and management throughout 2020/21.

Findings of our work


We have not identified any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Year first communicated, severity	Deloitte recommendation	Management response and remediation plan
The fixed asset register (FAR) is complex and does not include all relevant PPE movements	2019/20 	<p>The FAR is complex and does not include all relevant PPE movements, eg the Major repairs additions, or depreciation for council houses. There are also several other tabs required to reconcile the FAR to the annual accounts. This has contributed to revaluation movements being accounted for in cost when they should be for accumulated depreciation. We would expect that all movements and property balances are included in a single FAR.</p> <p>2020/21 Update: We note that improvements have been made in relation to the FAR during the year. However, there remains differences between the FAR and the statutory accounts for the cost and accumulated depreciation of Other Land and Buildings. The net book value (NBV) reconciles. We recommend that this is investigated and resolved.</p>	We would aim to investigate and resolve for the 2021-22 Statement of Accounts the technical imbalance between cost and accumulated depreciation which will have a net £nil impact on the net book value of the Council's non-current asset values.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

No issues have been identified.

Other matters relevant to financial reporting:

There are no other matters required to be raised.

Significant matters discussed with management:

There have been no significant matters arising from the audit.

Liaison with internal audit:

The audit team has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings.

We will obtain written representations from the Accounting Officer and board of directors on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

In 2019/20, the revaluation reports of externally revalued assets included a material uncertainty paragraph regarding the potential impact of Covid-19 on asset valuations. Due to updated RICS guidance for 2020/21, we do not expect to make reference to this in our opinion as an Emphasis of Matter.



Value for Money reporting by exception

Our opinion will note that our Value for Money work is on-going and will be reported in our Auditor's Annual Report.

We have no matters to report by exception in our financial statement audit opinion.



Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement..

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none">• Organisational overview and external environment;• Governance;• Operational Model;• Risks and opportunities;• Strategy and resource allocation;• Performance;• Outlook; and• Basis of preparation	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit. Our work to date does not indicate that the narrative report is otherwise misleading. This will be confirmed upon receipt of the final version.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted in the draft from our review, however it is still to be formally approved by the Audit & Standards Committee and will be confirmed upon receipt of the final version.</p>

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 and the Council 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. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

Use of this report

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.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit & Standards Committee.

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

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

Michelle Hopton

For and on behalf of **Deloitte LLP**

Bristol | 17 September 2021

Appendices



Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements increase the CIES by £0.1 to £0.3 million, with corresponding decrease in net assets and increase the General Fund balance.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m	If applicable, control deficiency identified
Misstatements identified in current year						
Impact of Goodwin liability not accounted for in the financial statements in 2020/21	[1]	0.3	(0.3)	-	-	Page 14
Total				-	-	
Misstatements identified in previous year						
No consideration of the Goodwin judgement in pensions assumptions in 2019/20	[1]	0.3	(0.3)	-	-	

[1] The impact of the Goodwin liability should be recognised in 2020/21 as a past service cost in the income statement. A projected impact range of 0.1% to 0.25% of the Council's defined benefit obligation has been calculated by Deloitte Pension specialists, for a typical LGPS employer. This would indicate that the total Goodwin impact would be between c. £130k and c.£320k

Disclosure Deficiencies

To date no disclosure deficiencies have been noted as part of our work.

Independence and fees

Appendix B

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and our objectivity is not compromised.
Fees	Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Trust, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

As part of our obligations under International Standards on Auditing (UK) and the FRC's Ethical Standard we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity, there are no such relationships to bring to the attention of the Audit & Standards Committee.

Independence and fees (continued)

Appendix B

The professional fees expected to be charged by Deloitte for the period from 1 April 2020 to 31 March 2021 are as follows:

	2020/21 Audit £	2019/20 Audit £
Stroud District Council Financial Statements		
Original scale fee	40,021	40,021
Change to scale fee to reflect increased audit costs and nature of the council*	4,795	-
Value for Money	15,000	-
Scope changes and overruns – to be agreed and approved by PSAA	TBC**	28,000
Total fees	59,816	68,021

*A number of factors have contributed to an increase in audit costs since the contract was tendered in 2017. We are now required to use specialists to a far greater degree to support our audit work and in particular where specialist input relates to a significant audit or management estimate or judgement.

**During the course of the audit we have incurred unplanned cost which were not built into the audit fee. On completion we will agree these with management and seek approval from the PSAA.

We confirm all Deloitte network firms are independent of the Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Our approach to quality

AQR team report and findings

Appendix C

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2020/21 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, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC's findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of

impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

Our approach to quality

AQR team report and findings

The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."

Our approach to quality

AQR team report and findings

Appendix C

Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets

How we have addressed this area as a firm

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

- We refreshed our Impairment Centre of Excellence ("COE") to establish clear partner leadership and introduced frequent communication touchpoints to share best practice, hot topics and technical updates.
- We performed a risk focused strategic allocation of impairment specialists for a selection of December 2020 audit engagements, taking into account industry knowledge and experience. Going forward we will seek to involve the EQCR partner to determine whether the allocated specialist should have industry knowledge or whether generalist knowledge would provide an enhanced independent challenge to an industry focused engagement team.
- We will update our impairment guidance notes and consultation document to include specific risk criteria which require further discussion with a panel of specialists, including, but not limited to, where the audit team develop their own model or where cashflow forecasts extend beyond a commonly used period.
- The launch of the Digital Blueprint project management tool will assist teams in prioritising their time across all areas of the audit.
- We will hold workshops with our partners and directors to bring to life the common causes that have led to FRC findings and to ensure greater consistency in expectations in respect of the expected depth of review.
- We have introduced a new coaching program to support the development of primary reviewing skills and to identify any reviewing skills gaps which need addressing.
- To respond to the poor quality and untimely preparation of information by the company for audit, we expect, where appropriate, to increase the communication with management and those charged with governance so that there are clearer expectations in respect of the quality of information prepared for audit.
- We have updated our impairment template memo to reflect the most recent inspection findings we will develop additional training materials on hot topics and areas of regulatory focus, for example, guidance to assist in the challenge of cash flow assumptions and cost reduction initiatives.
- We also developed a new template to support teams in auditing accounting estimates in response to the requirements of ISA (UK) 540 revised 'Auditing Accounting Estimates & Related Disclosures'.

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We ask the Audit & Standards Committee to confirm that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Council.

We also ask the Audit & Standards Committee to confirm their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in the completeness of creditors and management override of controls as a significant audit risk.

During course of our audit, we have had discussions with management and those charged with governance, with no significant issues identified.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit & Standards Committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Value for Money deadline extension

Appendix E

Letter to the Audit Committee highlighting Value for Money deadline extension

Dear Audit & Standards Committee

The National Audit Office issued guidance to auditors on 16 April 2021 setting out a revised timetable for completion of work on arrangements to secure value for money. This revised timetable reflected the impact of the ongoing pandemic on preparers and auditors of accounts. That guidance, established that the Auditor's Annual Report should be published within three months of the signing of the Audit Opinion. Therefore we have not yet issued our Auditor's Annual Report. Under the 2020 Code of Audit Practice, we are required to provide this letter setting out the reasons for the Auditor's Annual Report not being issued by 30 September 2021.

Yours faithfully

Michelle Hopton



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