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Report for Information
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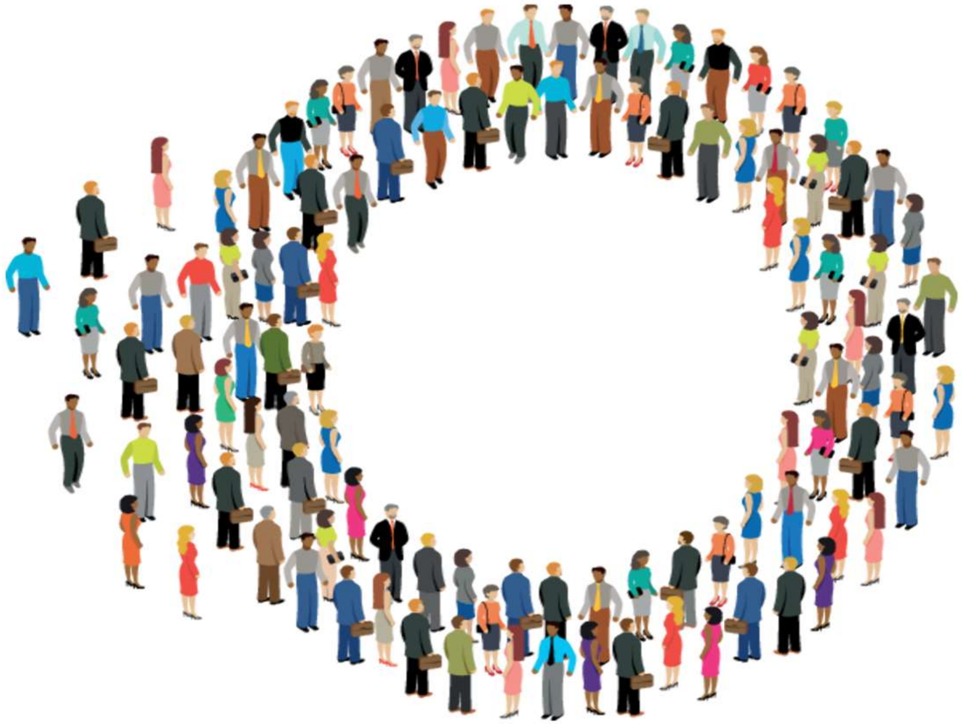
STROUD DISTRICT COUNCIL



Stroud District Council

Final report to the Audit and Standards Committee on the audit for the year ended 31 March 2020

Issued on 1 April 2021

Deloitte Confidential: Government and Public Services

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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 final report to the Audit and Standards Committee of Stroud District Council (the Council) for the 2020 audit of Stroud District Council. The scope of our audit was set out within our planning report presented to the Audit and Standards Committee in January 2020.

Status of the audit	Our audit is complete subject to completion of the following principal matters: • receipt of signed management representation letter; and • our review of events since 31 March 2020 through to signing.
Conclusions from our testing	We have not identified any significant audit adjustments or disclosure deficiencies. The items outline on page 22 are not significant for the purposes of our audit opinion. We are issuing an unmodified audit opinion. The Council has a rolling valuation over a five year period, part of this rolling revaluation, some assets are externally valued in each year. Externally valued asset's valuation report's have included a material uncertainty paragraph regarding the potential impact of Covid-19 on asset valuations. This is expected and has been seen on most valuations during the Covid-19 period. The Council has disclosed this within note 4 of the financial statements and we expect to make reference to this in our opinion as an Emphasis of Matter in relation to the property plant and equipment held on the Council's balance sheet. We have considered the implications of material uncertainty paragraphs included on the Council's directly held property fund investments and the property assets held by Gloucestershire County Pension Fund and determined these to not be fundamental to the financial statements and therefore have not referenced these in our Emphasis of Matter paragraphs.
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 has been checked for compliance with the Delivering Good Governance guidance issued by CIPFA/SOLACE.

Introduction

The key messages in this report (continued)

Duties as public auditor	• We did not receive any queries or objections from local electors this year. • 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.
Impact of Covid-19	The impact of Covid-19 has led to a material uncertainty being identified by the Council’s external property valuer regarding the valuation of properties. This is based on guidance from RICS. As a result we expect to refer to this in our opinion as a emphasis of matter on property valuations. Following receipt of the IAS 19 letters from the Gloucester County Pension Fund we will consider whether this will also require an emphasis of matter paragraph. There are no other significant impacts of Covid-19 on the Council’s Accounts and Annual Report identified at this time. Further impact of Covid-19 can be seen on slide 21.
Whole of Government Accounts (WGA)	The Council is not a sampled component for WGA reporting.

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment
In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

Scoping
We have completed our audit in line with our audit plan.

Other findings
As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out from page 13 of this report.

Identify changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Determine materiality
When planning our audit we set our materiality at £1,605k based on approximately 2% of the Council's year end gross expenditure. We updated our materiality assessment based on year-end figures to £1,518k (2% of gross expenditure). We report to you in this paper all misstatements above £76k.

Significant risk assessment
In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report. No additional risks have been identified since our Audit Plan.

Conclude on significant risk areas
We draw to the Committee's attention our conclusions on the significant audit risks set out on pages 6 to 8.

Our audit report
We are issuing an audit report with and Emphasis of Matter in relation to the Material Uncertainty on valuations and 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.

Significant risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness of Accruals	✓	✓	D+I	Satisfactory	●	Satisfactory	7
Management override of controls	✓	✓	D+I	Satisfactory	●	Satisfactory	8

Overly prudent, likely to lead to future credit ⊖ ⊖ ● ⊕ ⊕ Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Completeness of Accruals

Risk identified
Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure, particularly in relation to year end accruals.

There is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year end position. There is therefore a risk that the Council may materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year end position.

Deloitte response

- We obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and valuation of accruals;
- We performed focused testing in relation to the completeness of accruals by completing focused unrecorded liabilities testing;
- We reviewed the year-on-year movement in accruals and provisions investigated any significant downward movements.

Deloitte conclusion

Based on the audit evidence obtained we conclude that expenditure is appropriately recognised. We consider management judgements to be within the reasonable range.

Significant risks

Management Override of Controls

Risk identified
In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgements in the financial statements include those which we have selected to be the significant audit risks and other audit matters, (completeness of accruals, pension valuations and the Council’s property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response

- We have tested the design and implementation of key controls in place around journal entries and management estimates and judgements;
- We risk assessed journals and selected items for detailed testing. The journal entries were selected using computer assisted profiling based on criteria which we consider to be of audit interest;
- We tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- We reviewed the accuracy of calculating its current year accruals and provisions;
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud.

Deloitte conclusion

We have not identified any significant bias in the key judgements made by management.

Other areas of audit interest

Property Valuations

Risk identified
The Council held £309,107k of property assets (land and buildings) at 31 March 2020 which has increased from £301,434k as at 31 March 2019.

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 Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. There is therefore a risk that that the carrying value of assets not included in the Council's revaluation process in the current year materially differ from the year end fair value.

The property valuation is an area of audit interest as even though the year end valuations are material they are performed by an independent expert on assets of a unique nature, whereby the valuations should not materially change year on year.

Material Uncertainty

Externally valued asset's valuation report's have included a material uncertainty paragraph regarding the potential impact of Covid-19 on asset valuations. This is expected and has been seen on most valuations during the Covid-19 period. The Council has disclosed this within note 4 of the financial statements and we have made references to this in our opinion as an Emphasis of Matter.

Investment Properties
A prior year adjustment has been noted in relation to the classification of properties as investment properties. A detailed review in year has identified that the properties included were not purchased 'solely' for the purpose of returns in line with the requirements of the CIPFA code. This has resulted in an adjustment of the prior year comparatives within the financial statements and notes. We have challenged management whether the valuation approach adopted as at 31st March 2020, as an investment property remains appropriate following the reclassification.

Deloitte response

- We have understood how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;
- We reviewed any revaluations and impairment reviews performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- We have used our valuation specialists (Deloitte Real Estate), to support our review and challenge the appropriateness of the assumptions used in the year end valuation of the Council's Land and Buildings; and
- We have tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Deloitte conclusion

Work has been completed including engagement with our Real Estate Specialists and recommendations raised by our specialists will be communicated to management. As stated on page 4, we will make reference to the material uncertainty disclosed by external valuers through an Emphasis of Matter paragraph in our audit report. This has been assessed to be fundamental to the financial statements due to the size of the property holdings relative to the financial statements.

Other areas of audit interest

Pensions Valuation

Risk identified

The Council are part of the Local Government Pension Scheme operated by Gloucestershire County Council. The Council recognised a combined pensions liability of £48,839k at 31 March 2020 which increased from £39,146k as at 31 March 2019. The Code requires that their year end carrying value should reflect the appropriate fair value at that date. We understand that the Council has undergone a triannual valuation in the year which has amended the funding proportion of the Council.

Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required for each council. The pensions valuation is an area of audit interest due to the material values attached to the valuations and disclosures in the financial statements.

McCloud Judgment
The Council's pension liability is derived from actuarial estimates of the assets and liabilities of the Local Government Pension Scheme (LGPS). The scheme is affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Last year the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability.

The Council commissioned its actuaries in the prior year to revise its liability assumptions for the LGPS. The result was an increase of £294k, in 2018/19. Within the 2019/20 financial statements a revision been made to the previous allowance for the recent McCloud ruling (following the publication of the Ministry of Housing, Communities and Local Government (MHCLG)). As the consultation was completed in July 2020 this would be included as a post balance sheet event. As the prior year adjustment is immaterial, we therefore conclude that any amendment post year end would also not be material to the council and therefore does not require inclusion in the financial statements.

Goodwin Judgement
The Goodwin judgement relates to sex discrimination as a result to changes that were made to pension rights for same sex married couples and relates to a tribunal ruling that was made on the 20th June 2020. For accounting at 31 March 2020, we note that the Council's pensions accounting in respect of LGPS makes no allowance for the Goodwin ruling. For a typical LGPS employer, Hymans Roberson has indicated that it considers the estimated Goodwin impact cost could be between 0.1% p.a. and 0.25% p.a. of the DBO. This would indicate that the total Goodwin impact for the six Sections would be between c.£130k and c.£320k, although the actual cost could be considerably different. This has not been corrected by management although this would not be material.

Pension Fund Auditor
We have written to the auditors of Gloucestershire County Pension fund and received the IAS19 letter. This identified a material uncertainty in relation to the property assets held Gloucestershire County Council Pension fund. The Council's share of the property asses held within the fund equate to £7.1m (7.8% of the Council's assets). We have assessed this in the context of the wider financial statements and do not believe this is fundamental to the users and therefore have not included this as an emphasis of matter in our audit opinion.

Other areas of audit interest

Pensions Valuation (continued)

Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We have written to the auditors of Gloucestershire County Pension fund and received the IAS19 letter. This identified a material uncertainty in relation to the property assets held Gloucestershire County Council Pension fund. We have assessed this in the context of the wider financial statements and do not believe this is fundamental to the users and therefore have not included this as an emphasis of matter.
- We have assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year and compares this to the IAS 19 letter provided by the actuary.
- Our specialists have reviewed and finalising their work on the assumptions made by Hymans Robertson and feel they are within a reasonable range, with the exception of the Goodwin case discussed above.

Deloitte conclusion

We have reviewed the actuarial assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS 19.

For a typical LGPS employer, Hymans Roberson has indicated that it considers the estimated Goodwin impact cost could be between 0.1% p.a. and 0.25% p.a. of the defined benefit obligation on the balance sheet. This would indicate that the total Goodwin impact would be between c.£130k and c.£320k. This has not been corrected and is included on page 27.

Fair value of plan assets and PV of defined benefit obligation have been understated £124k and overstated £23k respectively, since 2014-15, giving a net £147k overstatement of the net liability

No issues noted in relation to the pension liability or disclosures following the audit testing that has been completed as detailed above.

Other areas of audit interest

Value for Money

Risk identified

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Deloitte response

Our work in this area included a detailed risk assessment which has taken into account:

- A full understanding of the UBICO contract and efficiency measures in place and their related outcomes;
- High level interviews with senior operational staff and internal audit as required;
- Review of the Council's draft Annual Report, Annual Governance Statement and Council papers and minutes and
- Consideration of the Council's financial results..

Deloitte conclusion
Our work to determine whether there are any matters in respect of the Council's arrangements which would impact our opinion that the Council is securing economy, efficiency and effectiveness in the use of resources, the Annual Governance Statement and Narrative report is complete.
We have nothing to report in these matters.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

	Observation	Deloitte recommendation	Management response
The fixed asset register (FAR) is complex and does not include all relevant PPE movements	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.	Management should review the compilation of the FAR and the presentation of movements.	TBC

Other significant findings (continued)
Follow up of prior year recommendations

	Observation	Deloitte recommendation	Management response	Current Year Status
Financial statements	Whilst the quality of the narrative in the financial statements is deemed high standard. We identified that the reconciliation between the trial balance and the accounts contained a number of manual adjustments and was not easy to map. In addition, supporting working papers for the notes to the financial statements required significant efforts to understand and reconcile and often resulted in a number of adjustments being made to the financial statements. In addition, we identified that the cashflow contains a balancing figure. This is below our reporting threshold, however, it is not deemed good practice to make the cashflow balance this way. Further, we identified that the accounts included a number of analysis notes which were difficult to reconcile to supporting documentation and audit. A number of these seemed to present additional information over and above CIPFA requirements.	It is recommended that an exercise be undertaken to map the trial balance to the financial statements and that this working paper be expanded to also link the primary statements to the supporting disclosure notes. In addition, it is recommended that the cashflow statement is re-worked to ensure that it balances. Finally, it is recommended that the accounts are reviewed to streamline the accounts to include information that adds value to the reader whilst being CIPFA compliant at the same time.	A piece of work has already commenced to utilise BusinessWorld reporting functionality to automate production of the Statement of Accounts, to include mapping from the Trial Balance to the primary statements and disclosure notes. **Responsible Officer:** L Clothier **Date for completion:** March 2020 The cash flow statement will be re-worked in the manner recommended. **Responsible Officer:** G Bailey **Date for completion:** March 2020 A review of the need for particular notes and analysis will be conducted to streamline the Statement of Accounts where possible, without compromising on CIPFA compliance. **Responsible Officer:** G Bailey **Date for completion:** March 2020	There has been significant progress on the mapping of the trial balance in year. This was much simpler than previously. A review of the notes has taken place. No significant issues have been noted to date however, our review of the final version of the accounts are ongoing.

Other significant findings (continued)

Follow up of prior year recommendations (continued)

	Observation	Deloitte recommendation	Management response	Current Year Status
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit.	We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council’s underlying accounting systems.	Some preliminary work has been done on this, and a full impact assessment will be completed during the financial year 2019/20. The aim is also to complete an adjusted opening balance sheet position following the March 2020 audit. **Responsible Officer:** G Bailey **Date for completion:** July 2020	This work is ongoing and will continue during 20/21 financial period. The implementation of IFRS 16 has been postponed by another year due to the Covid-19 pandemic.

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.

Significant matters discussed with management:

There have been no significant matters arising from the audit.

Other matters relevant to financial reporting:

There are no other matters required to be raised.

We will obtain written representations from those charged with governance on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit are expected to impact on other significant sections of our audit report.

Our opinion on the financial statements

Our opinion on the financial statements is expected to be unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern at the date of this report, however work in this section is ongoing and we will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

Due to the disclosure of a material uncertainty clause in external valuation we envisage that it is 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.

Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Our conclusion on the Council's arrangements is expected to be unmodified.

Other reporting responsibilities

Work is ongoing on the Annual Report to review for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

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	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation.	We are finalising our assessment as to whether the Narrative Report has been prepared in accordance with CIPFA guidance. Work around the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit is still ongoing. We will conclude when we are satisfied that the report is fair, balanced and understandable. We will update management and when all reviews are completed of our findings and where appropriate request revision in order to comply with guidance.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	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.

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 and Standards Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) 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.

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 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, 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.

Who we report to

This report has been prepared for the Audit and Standards Committee and 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.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

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

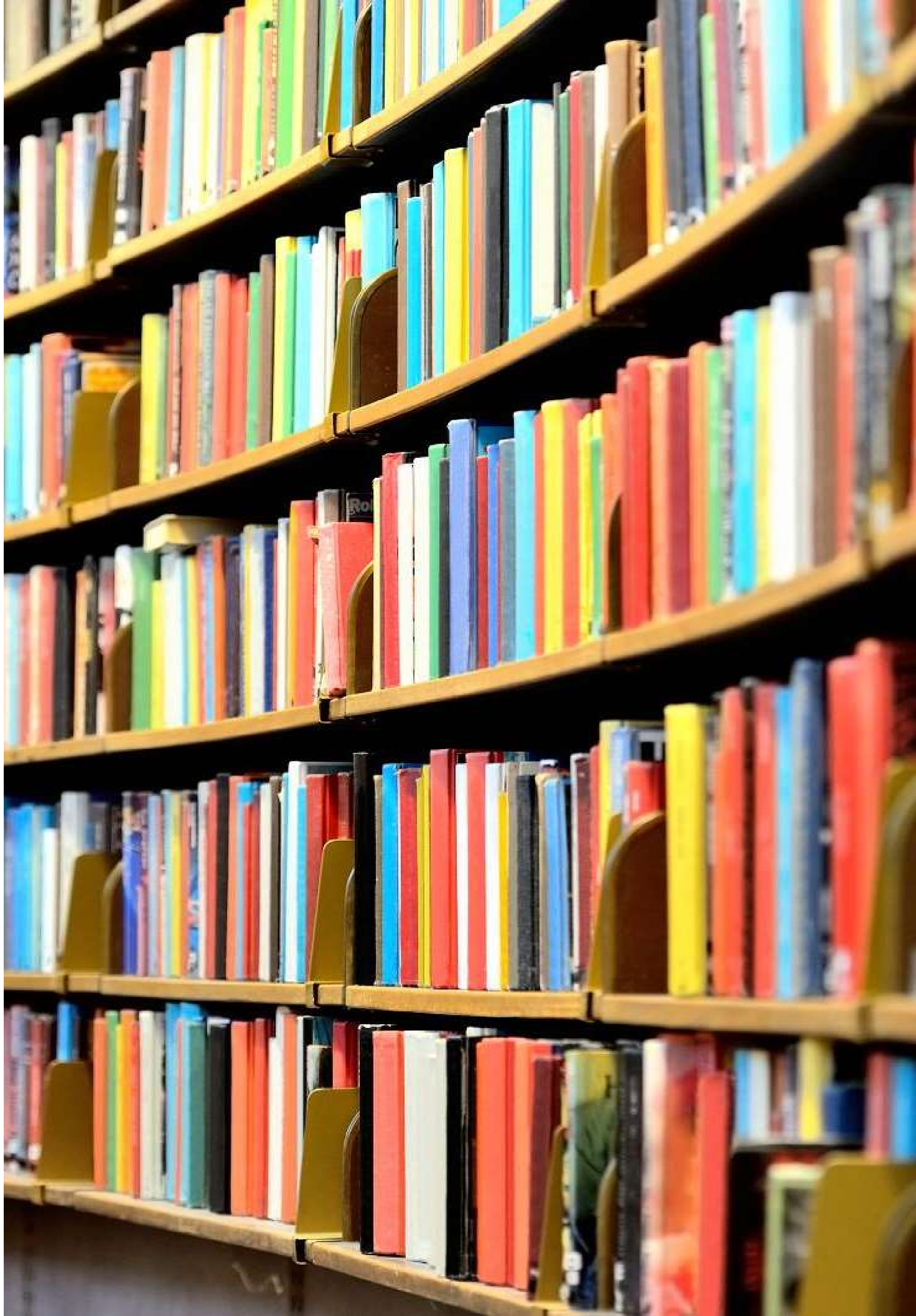
Michelle Hopton

for and on behalf of Deloitte LLP

Bristol

1 April 2021

Appendices



The Impact of Covid-19

Covid-19 pandemic and its impact on our audit.

CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments.

In a normal year we perform the majority of the audit work on client site, however due to the pandemic we have been working remotely and sharing information over a sharepoint site which has been set up. We have maintained catch-up calls with management and arranged calls for explanations and discussions.

Impact on annual report and financial statements

Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which, valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. External valuations for the Council has shown that a material uncertainty clause has been included. The Council have disclosed this in note 4 of the financial statements this will result in an Emphasis of Matter in our audit report. Consistent with what we have seen in other clients, the Council's valuers have included material valuation uncertainty in respect of the Council's properties. This will be reflected as an Emphasis of Matter in out audit opinion.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. It is important to ensure that measurements for the IAS 19 report is updated to the most available data as at 31 March 2020. Where Covid-19 has caused such volatility it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. we have received notification from the pension fund auditors that their report, once issued, is expected to reflect a material uncertainty for property held within the Gloucestershire County Pension Fund. Once their report is issued we will challenge it and assess any impact on both the financial statements and our audit opinion.
Going concern assessment	The Council needs to report on the impact of financial pressures and its financial sustainability in the narrative report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.
Events after the reporting period and relevant disclosures	Local authorities began to see the most substantial impacts of Covid-19 in March 2020 and therefore before the end of the reporting period. The Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The council will need to make significant judgements about these decisions and the nature of the Covid-19 pandemic will mean that they will need to continually review and update these assessments up to the date the accounts are authorised for issue.

Audit adjustments

Unadjusted misstatements and disclosure deficiencies

The following uncorrected misstatement has been identified up to the date of this report which we are required to report as it is above our reporting threshold and we request that you consider whether to ask management to correct as required by ISAs (UK).

		Debit/ (credit) CIES £k	Debit/ (credit) in net assets £k	Debit/ (credit) prior year reserves £k	*Memo: Debit/ (credit) usable reserves £k*	If applicable, control deficiency identified
Misstatements identified in current year						
No consideration of the Goodwin judgement in pensions assumptions	(1)	130 - 320	(130) – (320)			
FV of plan assets and present value of defined benefit obligation	(2)	(147)	147			
Total		-	-	-	-	

(1) For a typical LGPS employer, Hymans Roberson has indicated that it considers the estimated Goodwin impact cost could be between 0.1% p.a. and 0.25% p.a. of the defined benefit obligation on the balance sheet. This would indicate that the total Goodwin impact would be between c.£130k and c.£320k.
(2) Fair value of plan assets and PV of defined benefit obligation have been understated £124k and overstated £23k respectively, since 2014-15, giving a net £147k overstatement of the net liability

Disclosure Deficiencies

At the time of issuing this report we are finalising our review of the CIPFA checklist. We will update management on our findings and where appropriate request revision in order to comply with guidance.

Fraud responsibilities and representations

Responsibilities explained

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 have asked the Council to confirm in writing 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 have also asked the Council to confirm in writing 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 completeness of accruals and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance and have not identified any further risks relating to fraud.

Concerns:

No concerns to raise.

Independence and fees

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 that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for the external audit of Stroud District Council in 2019/20, provided by PSAA, was £40,021. Due to the work completed on the prior year adjustments and further time spent on technical accounting areas along with the impact of COVID 19 a fee increase of £29,000 has been agreed with management. There are no non-audit fees.
Non-audit services	In our opinion there are no inconsistencies between FRC Ethical Standards for Auditors and the Council'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 are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Revised Value for Money audit requirements

The National Audit Office has revised AGN03 reflecting the new Code of Audit Practice applicable for 2020/21 audits onwards

Issue

In January 2020 the National Audit Office issued the new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities. This introduced significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources).

On 15 October, the National Audit Office published Auditor Guidance Note 03 (AGN03), Value for Money, setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

- For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new “Auditor’s Annual Report” (AAR), [to be issued alongside the audit opinion for NHS bodies]. This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings.
- This commentary needs to be supported by more extensive work to understand the body’s arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.
- If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor’s Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they’ve been implemented satisfactorily.
- The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements.

The three criteria that would be considered in Value for Money work are be:

- **Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services.
- **Governance:** How the body ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

Next steps

- We will undertake the required VfM planning work under the revised procedures and we will report to the Audit Committee on our planned approach and any identified risks of significant weaknesses in arrangements as part of our planning for the audit of 2020/21.
- We are agreeing with management the timing for performing additional work on arrangements ahead of the 2020/21 year-end. When the national timetable is announced, we will agree with you the impact of the additional reporting requirements on the planned reporting timetable.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.

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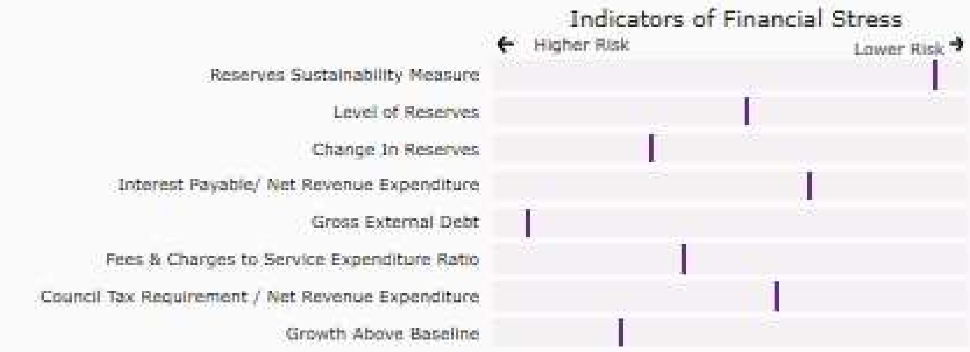
Financial sustainability

Covid-19 impact on 2020/21

Due to the timing of the Covid-19 pandemic there was limited impact on the Council's income and expenditure for the financial year currently under audit. However, as the committee will be well aware it is having a significant impact on the Council's operations and performance in 2020/21. Based on the Ministry of Housing, Communities & Local Government ("MHCLG") *Local authority COVID-19 financial management information reporting data*, during August Local Authorities were forecasting to incur additional Covid-19 related expenditure of £5.24bn in 2020/21 and to suffer a loss in income of £5.99bn over the same period. In relation to the cost increases, the largest expected pressure was in Adult Social Care which comprised £2.30bn to the total. For lost income the three main components were Business rates (£1.61bn), Council Tax (£1.56bn) and Sales, fees and charges (£2.01bn). To date the government has allocated £3.7bn of emergency funding to local authorities but this still leaves a significant gap which will present a challenge for the Council and will likely be an area which we need to focus upon in our value for money work in 2020/21.

Stroud District Council's position

At the start of the 2019/20 year, when compared to its nearest neighbour in the CIPFA Financial Resilience Index it was considered to be relatively high risk in relation to gross external debt, growth above baseline and change in reserves. However, overall it was relatively low risk overall and the reserves sustainability measure is at the maximum.



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	14.99	100.00	100.00
Level of Reserves	59.40%	124.52%	256.25%
Change In Reserves	-16.67%	12.53%	164.32%
Interest Payable/ Net Revenue Expenditure	-0.06%	0.93%	27.90%
Gross External Debt	£0k	£103,717k	£104,047k
Fees & Charges to Service Expenditure Ratio	6.93%	21.41%	39.98%
Council Tax Requirement / Net Revenue Expenditure	48.62%	76.80%	100.00%
Growth Above Baseline	52.00%	98.00%	270.00%

Although the Council is in a relatively strong reserves position, Covid-19 nonetheless presents a significant financial challenge in 2020/21 and beyond. The Council's response will be an area we focus upon in our value for money work in 2020/21 and which we would expect to comment upon in our narrative commentary in the Auditor's Annual Report.