



# Stroud District Council

## **Report to the Audit & Standards Committee on the 2021/22 audit**

Issued on 21 November 2022 for the meeting on 29 November 2022

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# Introduction

## The key messages in this report

I have pleasure in presenting our report to the Audit & Standards Committee of Stroud District Council (the Council) for the 2021/22 audit. The scope of our audit was set out within our planning report presented to the Committee in September 2022.

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.

### **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 our work on financial statements disclosures related to financial instruments;
- our review and checking of the updated financial statements;
- 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.

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 within three months from signing the accounts. Our auditor's annual report will cover both 2020/21 and 2021/22.

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

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:
  - Management override of controls;
  - Car parks valuation; and
  - Capital expenditure

The work regarding valuation of car parks and capital expenditure is still in progress and is subject to final review of engagement lead. We will provide an oral update at the meeting.

The work regarding management override of controls is completed and subject to final review of our engagement lead. We will provide an oral update at the meeting for any concerns.

# Introduction

## The key messages in this report (continued)

<b>Conclusions from our testing (continued)</b>	<ul style="list-style-type: none"><li>• 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 audit work.</li><li>• 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.</li></ul>
<b>Narrative Report &amp; Annual Governance Statement</b>	<ul style="list-style-type: none"><li>• We have reviewed the Council's Narrative Report &amp; Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.</li><li>• The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.</li><li>• We have raised minor comments on the Narrative Report and are waiting on receipt of the final version.</li></ul>
<b>Duties as public auditor</b>	<ul style="list-style-type: none"><li>• We did not receive any queries or objections from local electors this year.</li><li>• The publication of the Statement of Accounts for inspection is a legal requirement.</li><li>• We have not identified any matters that would require us to issue a public interest report.</li><li>• We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.</li></ul>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"><li>• The instructions has not been released yet so its not concluded if the Council would be a sample component for WGA reporting this year. However, NAO have indicated that they may still request work on components if these are not sampled based on the threshold.</li><li>• During last year, the Council was not a sampled component for WGA reporting and we were required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.</li></ul>
<b>Acknowledgement</b>	<ul style="list-style-type: none"><li>• We would like to take this opportunity to thank management and the team for their assistance throughout the audit. We would also like to mention that there were delays in the returning of audit evidence for samples and other delays in providing information which resulted in significant efforts and additional time on our side to complete the required audit procedures.</li></ul>

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.

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.

- 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. fixed assets valuation, capital expenditure, pension assumptions and Covid-19 grant treatments) were communicated to the audit team promptly.	-
Adherence to deliverables timetable		There were delays to some deliverables including delays in the returning of audit evidence for samples and other required information. This had resulted in additional efforts and additional resources being allocated to complete this audit. For example there were significant delays in obtaining the required information related to journals which was received a month after the request was made. Similarly, the required information related to short term debtors and creditors was requested during mid of August 2022 and it was received during mid of September 2022 which resulted in additional resources being allocated to complete the required procedures.	-
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. However, we have not identified any significant issues from our completion of CIPFA code checklist.	-
Response to control deficiencies identified		Control deficiencies have been discussed with management and accepted where no mitigating controls exist.	Page 18
Volume and magnitude of identified errors		Low volume and magnitude of identified errors.	Page 24

# 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.
<b>Significant risks</b>							
Capital expenditure				Satisfactory		Satisfactory	9
Management override of controls				Satisfactory		Satisfactory	10
Car parks valuation				Satisfactory		Satisfactory	11
<b>Area of Audit Focus</b>							
Pension liability valuation				N/A as no such controls testing was performed		Satisfactory	13
Covid-19 grants				N/A as no such controls testing was performed		Satisfactory	15



Inconsistent



Minor differences



Consistent



**Controls approach adopted**

Assess design & implementation



# Significant risks

## Capital expenditure

<b>Risk identified</b>	<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 capital expenditure.</p> <p>The Council's capital expenditure in 2021/22 was £17,695k (2020/21 £8,458k).</p> <p>There is an element of judgement in applying the relevant capitalisation criteria for expenditure. We therefore consider that there is an incentive for revenue expenditure to be capitalised so that this expenditure does not impact the statement of comprehensive income in one year, but is instead spread over a number of years through the depreciation charges in an attempt to report a more favourable year end position.</p>
<b>Deloitte response and challenge</b>	<p>We have completed the following procedures:</p> <ul style="list-style-type: none"><li>• We have tested the design and implementation of the key controls in place in relation to the determination of capitalisation expenditure.</li><li>• We have performed test of details of capital expenditures during the year 2021/22 on a sample basis to confirm that the capitalisation criteria has been met and complies with relevant accounting requirements.</li></ul> <p>We are in the process of completing below procedure;</p> <ul style="list-style-type: none"><li>• We are identifying the journals of increased audit interest within capital expenditure i.e. debit to capital expenditure and credit to revenue expenditure and other material journals in capital expenditure (greater than 50% of our performance materiality) to ensure there are no errors that may result in material misstatement. The appropriateness of these journals would then be assessed through detailed testing.</li></ul>
<b>Conclusion</b>	<p>At the time of the report, we have no matters to bring to the attention of the Audit &amp; Standards Committee. However, audit work on capital expenditure journals is still in progress as mentioned above and is also subject to final review of our engagement lead. We will provide an oral update at the meeting for any concerns.</p>

# Significant audit risks (continued)

## Management override of controls

<b>Risk identified</b>	<p>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.</p> <p>The key judgments in the financial statements are those which we have selected to be the significant audit risks: capital expenditure, car parks valuation and management override of controls. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.</p>
<b>Deloitte response and challenge</b>	<p>We have considered the key judgements made in preparation of the Statement of Accounts, and performed below procedures:</p> <p><b>Journals</b></p> <ul style="list-style-type: none"><li>• We have tested the design and implementation of controls in relation to journals.</li><li>• 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.</li><li>• We have used computer-assisted profiling of all journals posted during the year to identify journals of increased audit interest. The appropriateness of these journals was then assessed through detailed testing.</li></ul> <p><b>Significant transactions</b></p> <ul style="list-style-type: none"><li>• We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.</li></ul> <p><b>Accounting estimates</b></p> <ul style="list-style-type: none"><li>• We have performed design and implementation testing of the controls over key accounting estimates.</li><li>• We have reviewed accounting estimates for biases including capital expenditure, that could result in material misstatements due to fraud.</li><li>• We reviewed the accuracy of prior year estimates.</li><li>• We assessed the design and implementation of controls relating to significant management estimates, in accordance with ISA540.</li></ul>
<b>Conclusion</b>	<p>The work regarding management override of controls is completed and is subject to final review of engagement lead. To date we have no matters to bring to the attention of the Audit &amp; Standards Committee. We will provide an oral update at the meeting for any concerns.</p>

# Significant audit risks (continued)

## Car parks valuation

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**Risk identified**

The Council held £356m of property, plant & equipment assets at 31 March 2022 (2020/21 £330m).

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.

In 2021/22, there is £19.2m (2020/21: £13.2m) revaluation surplus credited to revaluation reserve which is material. In 2020/21, Valuation of the Church Street car park did not make an allowance from a net income figure to reflect the hypothetical rental range. The valuation was therefore considered to be overstated by c. 20%, the projected overstatement was £1m which was reported as unadjusted misstatement. In 2021/22, the council revalued car parks assets with the revaluation value of £3.3m (£5.3m).

Although revaluations are carried out by an independent qualified valuer, there is an element of judgement in applying various rates and percentages in valuing the assets, especially in car park valuation, different income or yields used can have a material impact on valuations.

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**Deloitte response and challenge**

We have completed the following procedures;

- We have tested the design and implementation of the key controls in place in relation to the valuation of car parks.
  - 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 involved our valuation specialists, Deloitte Real Assets Advisory "DRAA", to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council's car park assets.
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# Significant audit risks (continued)

## Car parks valuation (continued)

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<b>Deloitte response and challenge (continued)</b>	<p>We are in the process of the completing the below procedures;</p> <ul style="list-style-type: none"><li>• Our valuation specialists, Deloitte Real Assets Advisory "DRAA", are reviewing and challenging the appropriateness of the assumptions used in the year-end valuation of the Council's car park assets.</li><li>• We are reviewing the mathematical accuracy of the revaluation workings in line with ISA540 requirements.</li><li>• We are reviewing the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.</li><li>• We are challenging management's assessment whether any impairment arises in respect of newly capitalised expenditure.</li><li>• We are testing the inputs used in the car park valuations including the average income provided to the valuer, and considered if an allowance was made from net income figures in valuation as per our prior year's audit findings.</li></ul>
<b>Conclusion</b>	<p>At the time of the report, we have no matters to bring to the attention of the Audit &amp; Standards Committee. However, work by our DRAA specialist and other work as mentioned above, is still in progress due to ongoing communication with the Council's valuation experts and the Council's management. We will provide a verbal update on progress to the committee.</p>

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# Other areas of audit focus

## Pension liability valuation











<b>Risk identified</b>	<p>The Council are part of the Local Government Pension Scheme operated by Gloucestershire County Council. The Council recognised a combined pensions liability of £51.2m at 31 March 2021 which decreased to £36.6m as at 31 March 2022. The Code requires that their year end carrying value should reflect the appropriate fair value at that date.</p> <p>Hymans Robertson act as the Council's expert actuary, who produce a report outlining the liability and disclosures required.</p> <p>The pensions valuation is an area of audit interest due to the material values attached to the valuations and disclosures in the financial statements. This has not been classified as a significant risk as there are limited movements in the membership data through discussion with the management, and we understand that the assumptions and methodologies used are consistent with those in the previous years. We also understand that there have been no significant changes in the membership of the scheme or accrual of benefits for the year.</p>
<b>Deloitte response and challenge</b>	<p>We have completed the following procedures:</p> <ul style="list-style-type: none"><li>• 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 to confirm that the disclosure of the pension figures in the statement of accounts agree with those provided by the scheme actuary.</li><li>• We reviewed the disclosures made in the Statement of Accounts against the requirements of the CIPFA Code.</li><li>• We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.</li><li>• We have involved our internal pension specialist who has reviewed and challenged the assumptions made by Hyman Robertson, including benchmarking as shown in the table on the following page.</li></ul> <p>We are in the process of completing below procedures;</p> <ul style="list-style-type: none"><li>• We are waiting for the response of IAS 19 letter from the audit team of Gloucestershire County Council Pension Fund, Grant Thornton.</li><li>• After receipt of IAS 19 letter, we will assess if any further correspondence is required 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 including membership data.</li></ul>
<b>Conclusion</b>	<p>At the time of the report, we have identified that no adjustment has been made by the actuary in relation to the Goodwin judgement, which will result in a judgemental misstatement in the region of 0.1% of the Council's defined benefit obligation. This is discussed further on page 24.</p> <p>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.</p>

## Other areas of audit focus (continued)

### Pension liability valuation (continued)

#### 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 March 2022	Benchmark	Deloitte Assessment	Assessment key
Discount rate (% p.a.)	2.70%	2.60% - 2.85%		 In reasonable range
Salary increase rate (% p.a.)	3.50%	In line with that used in the most recent funding valuation.		 Towards limit of reasonable range
Consumer Price Index (CPI) Inflation rate (% p.a.)	3.20%	3.00% - 3.30%		 Optimistic or Prudent
Retain Price Index (RPI) Inflation rate (% p.a.)	3.65%	3.60% - 3.75%		
Pension increase in payment and deferment (% p.a)	3.20%	In line with CPI assumption		
Mortality assumptions for a; - male pensioner currently aged 65 - female pensioner currently aged 65 - male pensioner currently aged 45 - female pensioner currently aged 45	21.70 24.10 22.60 25.80	Within acceptable range		
Proportion married assumption - % of males who are assumed to be married at retirement - % of females who are assumed to be married at retirement	90% 85%	Closer to prudent range		

# Other areas of audit focus (continued)

## Covid-19 Grants

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**Risk identified**

The Council received significant grant funding in the prior year (£47.4m) as part of the Government's response to covid-19, which has continued into 21/22 at a reduced rate (£13.6m). There are inherent judgements in relation to the revenue recognition criteria being met for these grants as well as the accounting treatment for these funds as either principle (where the Council have control and therefore recognise in the financial statements) or agency (where the use is mandated and the Council does not include the income and expenditure in the financial statements).

We reviewed the accounting treatment for these grants in the prior year and there are significantly fewer grants in the 21/22 and therefore do not consider this a significant risk.

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**Deloitte response and challenge**

We have performed the following procedures:

- We reviewed management's assessment on the accounting treatment of each significant Covid-19 grant and challenged the appropriateness of the approach adopted.
- We have performed test of details on a sample of funding for Covid-19 grants and confirmed 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;
- We have considered the adequacy of disclosures in the financial statements, including its accounting policies;
- We have tested the agency arrangements, 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 2022 in respect of cash collected or expenditure incurred on behalf of the principal; and
  - The net cash position at 31 March 2022 is included in the financing activities in the Cash Flow Statement.

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**Conclusion**

The work regarding Covid-19 grants is completed and is subject to final review of engagement lead. To date we have no matters to bring to the attention of the Audit & Standards Committee. We will provide an oral update at the meeting for any concerns.

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# Value for money

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

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### **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.

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### **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 2021/22.
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# Value for money

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

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### **Findings of our work**

Our Value for Money work is on-going, and will be reported within three months from signing the accounts. Our auditor's annual report will cover both 2020/21 and 2021/22.

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



As of date, we have not identified any matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going.

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# 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, e.g 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>2021/22 Update: We note that improvements have been made in relation to the FAR during the year. However, for the year ended March 2022 there was still differences between the FAR and the statutory accounts for the cost and accumulated depreciation of £666K (£561K in Vehicles, plant and equipment and £100K in Infrastructure assets) which was later on corrected by the management in the accounts. We recommend management to ensure that FAR and statutory accounts are completely reconciled.</p>	Historical differences between the cost and accumulated depreciation for Other Land and Buildings in the Fixed Asset Register have been corrected in 2021/22. The technical adjustment has a net £nil impact on the net book value of the Council's non-current asset values.
Review of pension assumptions not documented	2021/22 	We have noted that Stroud has external actuary named "HYMANS ROBERTSON LLP" who prepares the pension reports for management. This involves various assumptions i.e. CPI, RPI and discount rates. While management performs the sense check for these assumptions but there is no documentation available to evidence the review of pension assumptions by management.	We use external actuaries to prepare the pension reports. Management considers the assumptions as part of accounts closedown.



Significant deficiencies reported



Other matters for attention reported

# 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. However, we no reliance was placed on internal audit work.

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**

Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.



### **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.



### **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 or other non-compliance with laws and regulations may occur, and any identified key audit matters relating to fraud.

# 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"> <li>• Organisational overview and external environment;</li> <li>• Governance;</li> <li>• Operational Model;</li> <li>• Risks and opportunities;</li> <li>• Strategy and resource allocation;</li> <li>• Performance;</li> <li>• Outlook; and</li> <li>• Basis of preparation.</li> </ul>	<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. We have raised some review points for management to consider and it is still to be formally approved by the Audit &amp; 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

## 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 | 21 November 2022

# 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).

		Debit/ (credit) Income and expenditure account £m	Debit/ (credit) in assets / liabilities £m	Equity / reserves £m	Debit/ (credit) OCI/Equity £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>						
Impact of Goodwin liability not accounted for in the financial statements in 2021/22	[1]	(0.1)	0.1	-	-	
<b>Total</b>		<b>(0.1)</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	
<b>Misstatements identified in prior year</b>						
Overstatement in provision for housing capital works	[2]	-	0.6	(0.6)	-	
Impact of Goodwin liability not accounted for in the financial statements in 2020/21	[3]	-	(0.3)	0.3	-	
<b>Total</b>		<b>(0.1)</b>	<b>(0.6)</b>	<b>0.7</b>	<b>-</b>	

[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.

### Important note

The audit work for year 2021/22 is still in progress on certain areas as mentioned on above slides and we may report additional misstatements subject to the completion of the audit work on these.

### Disclosure deficiencies

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



# 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.

		Debit/ (credit) Assets £	Debit/ (credit) Liabilities £	Debit/ (credit) Income and expenditure account £	Debit/ (credit) OCI/Equity £	If applicable, control deficiency identified
<hr/>						
Reclassification of credit balances under cash and cash equivalents						
Dr. Cash and cash equivalents	[1]	183,096	-	-	-	
Cr. Short term debtors		(183,096)				
<hr/>						
Adjustment to cost and accumulated depreciation in Note 14 of the accounts						
Dr. Accumulated depreciation (Fixed assets)	[2]	666,000	-	-	-	Page 18
Cr. Cost (Fixed assets)		(666,000)				
<hr/>						

[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. Please refer to slide 18 for further details.

# 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 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 performed for the period have been presented separately on the following page. There are no non-audit services provided to the Council during the year.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard 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 have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

# Independence and fees (continued)

The professional fees expected to be charged by Deloitte for the period from 1 April 2021 to 31 March 2022 are as follows:

	2021/22 Audit £	2020/21 Audit £
<b>Stroud District Council Financial Statements</b>		
Financial statement audit including Whole of Government Accounts and procedures in respect of Value for Money assessment	48,857	44,816
Additional work on Value for Money Requirements	TBC	15,000
Audit overruns	TBC**	15,000*
<b>Total fees</b>	<b>TBC</b>	<b>74,816</b>

\* The prior year audit required additional senior audit input including technical team support on a number of key issues which resulted in increased audit fees.

\*\*During the course of the audit we have incurred unplanned cost which were not built into the audit fee i.e. delays to receipt of evidences for samples including delays to receipt of other required information and challenges around valuation. On completion we will agree these with management and seek approval from the PSAA.

# Our approach to quality

## FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 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 2021/22 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, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

All the AQR public reports are available on its website:

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

### **The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP**

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."

# Our approach to quality

## FRC Audit Quality Inspection and Supervision report

### Improve the audit of estimates in relation to 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 includes 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 (“TechEx Teams”) will also include a follow-on session focusing on accounting estimates.
- We plan to develop a checklist, similar to that in place for our banking audits, for auditing Expected Credit Loss (‘ECL’) models for corporate audit teams to use where there are complex models being deployed by the companies we audit.
- Additional coaching will be provided to improve experience and skills when performing corporate audits which have ECL provisions.
- We continue to hold monthly workshops with our partners and directors to brief them on areas of regulatory focus, including the root cause of issues identified, and raise awareness of the importance of the review process.

# Our approach to quality

## FRC Audit Quality Inspection and Supervision report

### Further enhance the consistency of the evaluation by the group audit team of the component auditors' work

#### How we have addressed this area as a firm

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

- We established a Group Audit coaching programme to support engagement teams in key areas relating to group audits, primarily through sharing of good practice and highlighting common pitfalls. This programme will be expanded for FY22/23 to increase the number of coaches and engagements to be coached ahead of December 2022 year-ends.
- We included a mandatory training module within our main annual training ("TechEx") on Group Audits which focused on effective direction, supervision and review of component auditors. Our Engagement Team Based Learning ("TechEx Teams") will also include a follow-on session focusing on Group Audits.
- We are performing a refresh of our Group Audit practice aid in light of inspection findings to develop a reference point for good practice examples. We also intend to share templates that audit teams can use to evidence the communications held throughout the audit process with component audit teams.
- 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 group audits 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.

# Our approach to quality

## FRC Audit Quality Inspection and Supervision report

### Strengthen the evidence of review and challenge by the Engagement Quality Control Review partner

#### How we have addressed this area as a firm

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

- We commenced an EQCR transformation programme in the second half of 2021 designed to build on our existing EQCR practices to further enhance the effectiveness of our EQCR process and improve the evidence retained to demonstrate the EQCR challenge.
  - We have made enhancements to our EQCR allocation process and refreshed the onboarding of new EQCR partners, with a new onboarding pack that emphasises the expectations and accountability of the EQCR role.
  - Our evidence of EQCR review and challenge template has been refreshed and updated.
  - We have delivered additional guidance on expectations for the EQCR reviewers and also shared good practice examples across the audit practice.
  - We have included reminders of the EQCR requirements with respect to the need to hold discussions with Key Audit Partners of material subsidiaries in our EQCR briefings which are delivered to all EQCR reviewers.
- We included reminders within our 'Group Audit' and 'Direction, Supervision & Review' training modules in our main annual training ("TechEx") on EQCR which focused on EQCR review requirements and policies.

# Our approach to quality

## FRC Audit Quality Inspection and Supervision report

### **Appropriately apply the FRC Ethical Standard, particularly in relation to the approval of non-audit services**

#### **How we have addressed this area as a firm**

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

- We have updated our templates and guidance in respect of the Objective, Reasonable and Informed Third Party ('ORITP') test for non-audit services.
- We have updated our breach management policies, as well as introduced additional training and guidance on the revised FRC Ethical Standard.
- We continue to develop further guidance and to monitor all areas of the application of the FRC Ethical Standard to manage the risk of recurrence.
- We plan to run further workshops and training for all Partners and Directors in Autumn 2022 to communicate FRC findings, re-iterate latest guidance, share examples and common pitfalls with a specific focus on the ORITP test.



# 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 capital expenditure 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.



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