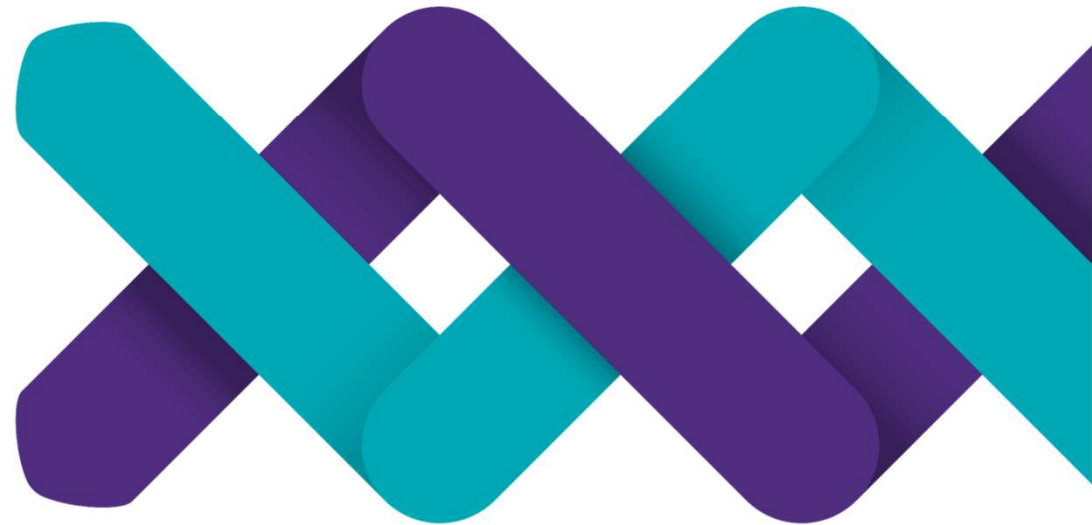


# Informing the audit risk assessment

## Staffordshire Moorlands District Council 2018/19



# Agenda

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# Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Accounts Committee under auditing standards.

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Accounts Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Accounts Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Accounts Committee and supports the Audit and Accounts Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. These responses should also reflect arrangements over the Council's group activities.

The Audit and Accounts Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

# Fraud

## Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Accounts Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Accounts Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit and Accounts Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Accounts Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Accounts Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

# Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud, including the nature, extent and frequency of such assessments?</p>	<p>Yes. The underlying management processes are primarily as described in the Annual Governance Statement, which is published alongside the Statement of Accounts.</p> <p>These are strengthened by additional procedures specific to the Statement of Accounts. For example, the Chief Finance Officer / Finance &amp; Procurement Manager undertakes a detailed review of the draft Statement of Accounts and will not issue a certificate until satisfactory answers and assurances have been provided.</p> <p>We conclude that there is no significant risk of material misstatement in the Statement of Accounts due to fraud.</p>
<p>What processes does the Authority have in place to identify and respond to risks of fraud, including any identified specific risks of fraud and risks of fraud likely to exist?</p>	<p>There are a number of policies and procedures in place including an Counter Fraud &amp; Corruption Strategy, RIPA Policy &amp; Procedures, Whistleblowing Policy, risk management arrangements set out in the risk management policy, strategy and process, participation in the NFI.</p> <p>Internal Audit is also 'good practice compliant' and has a proven track record in planning audit work to take account of fraud risks and responding appropriately to fraud risks in the organisation and enhancing controls to protect against the risk of fraud (e.g. procurement arrangements).</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No specific fraud risks or areas with a high risk of fraud have been identified. However, the Council is always vigilant to the threat of fraud and Internal Audit work is planned to highlight the threat of potential fraud.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Overall internal controls work effectively and Internal Audit report on ineffective controls which are corrected by management.</p>

# Fraud risk assessment

Question	Management response
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Not significantly. Financial and operational targets are an important part of the management process. However, a strong corporate commitment to appropriate ethical behaviour outweighs any pressure to meet targets.</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>Not significantly. Financial and operational targets are an important part of the management process. However, a strong corporate commitment to appropriate ethical behaviour outweighs any pressure to meet targets. Plus internal audit checks as part of the audit plan programme would highlight any misreporting.</p>
<p>How does the Council communicate with those charged with governance regarding their processes for identifying and responding to risks of fraud in the entity?</p>	<p>The Audit and Accounts Committee provides oversight through :</p> <ul style="list-style-type: none"> <li>• Review and approval of policies and procedures including an Counter Fraud &amp; Corruption Strategy, Regulation of Investigatory Powers Act and Whistleblowing Policy;</li> <li>• Review of risk management arrangements set out in the risk management policy, strategy and process;</li> <li>• Review of Internal Audit progress reports;</li> <li>• Review of Internal Audit Annual Report, which includes the opinion on the control environment;</li> <li>• Receiving periodic updates on the outcome of any fraud investigative work;</li> <li>• Receiving updates on actions taken to enhance controls and protect against the risk of fraud e.g. procurement arrangements; and</li> <li>• Consideration of reports from External Audit and any action plans setting out recommendations made.</li> </ul> <p>Procedures dictate that the Chair of the Audit and Accounts Committee is informed of any matters of actual, suspected or alleged fraud (with notification to the Audit and Accounts Committee subject to confidentiality).</p>

# Fraud risk assessment

Question	Management response
How does the Council communicate ethical behaviour of its staff and contractors?	There are a number of policies and procedures in place which are reviewed and approved by the Standards Committee including the Ethical Framework (inc. Code of Corporate Governance), a Staff Code of Conduct, Registers for Interests and Gifts & Hospitality. Such policies and procedures are the subject of a detailed communications process, which includes extensive coverage during induction and training.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a well publicised Whistleblowing Policy. No significant issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	Not aware of any related party relationships or transactions that could give rise to instances of fraud. Monitoring and controls in place mitigate the risk.
Are you aware of any instances of actual, suspected, or alleged fraud either within the Council as a whole or within specific departments since 1 April 2018?	Confirmation from the Monitoring Officer, Chief Financial Officer (CFO), Audit Manager, Legal & Elections Services Manager and Finance and Procurement Manager has been obtained that no significant frauds have been identified during 2018/19.
Are you aware of any whistle-blower reports or reports under the Bribery Act since 1 April 2018?  If so how does the Audit and Accounts Committee respond to these?	No.

# Fraud risk assessment

Question	Management response
<p>How does the Council protect itself against Fraud in its Group activities?</p>	<p>Ascent Housing LLP ; this joint venture with Your Housing LLP is required to produce audited accounts for consolidation in the Authority's financial statements. Both the audit opinion (Grant Thornton) and consolidation process provide assurance as to the financial controls within the organisation. Further assurance is provided by the two (of four) executive directors and the two (of four) non-executive directors nominated by the Authority to the board of Ascent.</p> <p>Internal Audit is 'good practice compliant' and has a proven track record in planning audit work to take account of fraud risks and responding appropriately to fraud risks in the organisation and enhancing controls to protect against the risk of fraud. Regular audits covering the Council's risks in Ascent Housing LLP are undertaken.</p> <p>Alliance Environmental Services Limited [AES] ; the joint operation with High Peak Borough Council and ANSA Environmental Services Limited (trading arm of Cheshire East Unitary Council) is required to produce audited accounts for consolidation in the Authority's financial statements. Both the audit opinion and consolidation process provide assurance as to the financial controls within the organisation. The Services Operating Agreement imposes a number of obligations on AES;</p> <ul style="list-style-type: none"> <li>- To hold Monthly meetings with representatives of the Council to address operational matters</li> <li>- To prepare Statements for inclusion in the Quarterly Financial Performance reports presented to Corporate Select.</li> <li>- To produce on demand written summaries of costs.</li> <li>- To maintain open book accounting, allowing reasonable access to officer's of the Council</li> <li>- To allow reasonable access to the Authority's auditors both internal and external.</li> </ul> <p>Further assurance is provided by Council officers holding two of the five directorships that make up the AES Board. The board meets 10 times per year and all significant decisions of AES are subject to the unanimous agreement of all directors.</p>



# Laws and regulations

## Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Accounts Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Accounts Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the noncompliance and the possible effect on the financial statements.

Risk assessment questions have been set out overleaf together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The operation of the statutory officer roles (Head of Paid Services, Monitoring Officer and Chief Financial Officer) help to ensure compliance with laws and regulations. For example, the Monitoring Officer has the authority to report to Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration, thereby stopping the proposal or decision being implemented until the report has been considered.</p> <p>Legal implications are outlined in all committee reports.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The operation of the statutory officer roles (Head of Paid Services, Monitoring Officer and Chief Financial Officer) help to provide assurance that laws and regulations are complied with.</p> <p>The Internal Audit service operates to the standards set out in the “Public Sector Internal Audit Standards” and the Internal Audit Plan specifically considers compliance with laws and regulations.</p> <p>The Council has a well publicised Whistleblowing Policy.</p>
<p>How is the Audit and Accounts Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Chief Financial Officer attends Audit and Accounts committee meetings to respond to members enquiries.</p> <p>Standard reporting formats requires that legal implications are outlined in all committee reports.</p> <p>The Audit Manager has a number of alternative reporting lines in the event of breach of law or regulation, including a right to meet privately with the Chair of the Audit and Accounts Committee or the Committee in full, should the situation determine such an approach necessary.</p>

# Impact of laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?	Confirmation from the Monitoring Officer, Chief Financial Officer (CFO), Audit Manager, Legal & Elections Services Manager and Finance and Procurement Manager has been obtained that no instances of non-compliance or suspected non-compliance with laws and regulations have been identified during 2018/19.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>The Council has embedded systems and procedures in place to deal with litigation and claims as they emerge (e.g. the "Link Officer" in respect of Ombudsman issues).</p> <p>At year end, additional procedures ensure that any such items are reflected in the financial statements if appropriate. This is incorporated within closedown procedures and includes specific enquiries of all senior management with a particular emphasis on the Legal &amp; Elections Services Manager, the Insurance Officer and the Head of Customer Services (responsible for the Ombudsman related issues).</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	Areas of litigation are reported in the Statements where their impact is considered material or significant to the readers of the statements and the outturn itself.
Have there been any reports from other regulatory bodies, such as HMRC which indicate noncompliance?	No.
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations within its Group activities?	<p>Ascent Housing LLP ; the joint venture with Your Housing LLP is required to produce audited accounts for consolidation in the Authority's financial statements. Both the audit opinion (Grant Thornton) and consolidation process provide some assurance as to compliance within the organisation. Further assurance is provided by the two (of four) executive directors and the two (of four) non-executive directors nominated by the Authority to the board of Ascent.</p> <p>Alliance Environmental Services Limited [AES] ; this joint operation with High Peak Borough Council and ANSA Environmental Services Limited (trading arm of Cheshire East Unitary Council) is required to produce audited accounts for consolidation in the Authority's financial statements. Both the audit opinion and consolidation process provide assurance as to compliance within the organisation.</p> <p>To facilitate the Authority in preventing and detecting non-compliance with laws and regulations the Operating Agreement imposes a number of obligations on AES;</p> <ul style="list-style-type: none"> <li>- To hold Monthly meetings with representatives of the Council to address operational matters</li> <li>- To prepare Statements for inclusion in the Quarterly Financial Performance reports presented to Corporate Select.</li> <li>- To produce on demand written summaries of costs.</li> <li>- To maintain open book accounting, allowing reasonable access to officer's of the Council</li> <li>- To allow reasonable access to the Authority's auditors both internal and external.</li> </ul> <p>Further assurance is provided by Council officers holding two of the five directorships that make up the AES Board. The board meets 10 times per year and all significant decisions of AES are subject to the unanimous agreement of all directors.</p>

# Going concern

## Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a Council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis.

Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience and is good practice.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations are set out overleaf and management has provided its response.

# Going concern considerations

Question	Management response
Is the going concern basis of accounting a fundamental principle in the preparation of the financial statements ?	For the 2018/19 presentation of the Statement of Accounts, a going concern assessment will be reported with reference to the approved Medium Term Financial Plan.
Has a preliminary assessment of the Council's ability to continue as a going concern been performed?	Yes. There is a firmly embedded Financial Planning process, which includes a rolling four year Medium-Term Financial Plan that is updated two times annually. Other features include CFO assessments and statements regarding budget estimates and the adequacy of reserves and balances.
What is the basis for the intended use of the going concern assumption, and are management aware of the existence of other events or conditions that may cast doubt on the Authority's ability to continue as a going concern ?	<p>No.</p> <p>All such known events are systematically mitigated. For example, budget deficits are primarily addressed through a well developed approach towards the achievement of efficiency savings, which has a proven track record of success.</p> <p>In response to the Government 4 year revenue support grant settlement, we submitted an efficiency plan outlining how the Council will be addressing financial pressures in accepting the settlement offer. Additionally, we presented a new four year efficiency programme to coincide with the 2017/18 Budget to outline plans to meet the budget deficit. This has been reviewed and re-profiled as part of the Medium Term Financial Plan to be presented in February 2019.</p>
Are arrangements in place to report the going concern assessment to the Audit and Accounts Committee?	No explicit statement is presented to Audit and Accounts Committee, however, the Committee scrutinises the treasury function and so is aware of the liquidity and funding position of the Authority.

# Going concern considerations

Question	Management response
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>Yes. Well established quarterly reporting process to councillors, combined with performance reporting against the Council's corporate plans and targets serves to inform the development of the three year Medium term financial plan.</p>
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes. For example, the Medium-Term Financial Plan specifically includes consideration of both national (e.g. statutory) and local (e.g. policy) issues in terms of their potential financial impact.</p>
<p>Have there been any significant issues raised with the Audit and Accounts Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No significant issues have been raised.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?</p>	<p>No. Financial information is closely monitored as a matter of routine through firmly established processes. In addition, regular treasury management reports are presented to Audit Committee which would highlight any cashflow deficit.</p>

# Going concern considerations

Question	Management response
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes. A service review process has been undertaken, with structures created to ensure services can operate effectively whilst achieving efficiency targets.. If and when numbers or experience is considered lacking, additional resource is brought in from third parties. Organisational Development is a systematic &amp; managed process.</p>
<p>What arrangements does the Council have in place to ensure that its Group activities are a Going Concern?</p>	<p>Ascent Housing LLP ; this joint venture with Your Housing LLP is required to produce audited accounts for consolidation in the Authority's financial statements. Both the audit opinion (Grant Thornton) and consolidation process provide some assurance as to the organisation being a Going Concern. Additionally, a business plan is regularly updated and presented to the Board. Further assurance is provided by the two (of four) executive directors and the two (of four) non-executive directors nominated by the Authority to the board of Ascent.</p> <p>Alliance Environmental Services Limited [AES] ; this joint operation with High Peak Borough Council and ANSA Environmental Services Limited (trading arm of Cheshire East Unitary Council) is required to produce audited accounts for consolidation in the Authority's financial statements. Both the audit opinion and consolidation process provide some assurance as to the organisation being a Going Concern.</p> <p>To facilitate the Authority's assessment that the joint operation continues to be a going concern the Services Operating Agreement imposes a number of obligations on AES;</p> <ul style="list-style-type: none"> <li>- To hold Monthly meetings with representatives of the Council to address operational matters</li> <li>- To prepare Statements for inclusion in the Quarterly Financial Performance reports presented to Corporate Select.</li> <li>- To produce on demand written summaries of costs.</li> <li>- To maintain open book accounting, allowing reasonable access to officer's of the Council</li> <li>- To allow reasonable access to the Authority's auditors both internal and external.</li> </ul> <p>Further assurance is provided by Council officers holding two of the five directorships that make up the AES Board. The board meets 10 times per year and all significant decisions of AES are subject to the unanimous agreement of all directors.</p>

# Related parties

## Matters in relation to Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 covers auditor responsibilities relating to related party transactions.

Many related party transactions are in the normal course of business and may not carry a higher risk of material misstatement. However in some circumstances the nature of the relationships and transaction may give rise to higher risks.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations have been set out overleaf and management has provided its response.



# Related parties consideration

Question	Management response
What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"><li>• Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li><li>• Annual return from senior managers/officers and members requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.</li><li>• Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.</li><li>• Review of related information with subsidiaries, companies and joint ventures, e.g. accounts.</li><li>• Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation</li><li>• Review of year end debtor and creditor positions in relation to the related parties identified.</li><li>• Review of minutes of decision making meetings to identify any member declarations and therefore related parties.</li></ul>

# Related parties considerations

Question	Management response
<p>Who are the Council's related parties, including changes from prior period?</p>	<p>People who are regarded as related parties are:</p> <ul style="list-style-type: none"> <li>• Elected members - Responsible for the direct control of the policies of the authority</li> <li>• Chief Executive, The Executive Directors and other Senior Officers, as key management personnel that have the authority and responsibility for planning, directing and controlling the activities of the authority.</li> <li>• Members of the families and households of members and officers with the ability to influence members or officers</li> </ul> <p>Entities that are regarded as related parties are:</p> <ul style="list-style-type: none"> <li>• Central government - Has effective control over local authorities, as authorities are incapable of acting without statutory authority. Able to limit possibility of independent action by specifying transactions and the terms on which they are concluded.</li> <li>• Other public bodies subject to common control by central government</li> <li>• The Council's strategic alliance partner – High Peak Borough Council</li> <li>• Ascent Housing (joint venture) – an entity over which the Council has joint control</li> <li>• Alliance Environment Services (established 2017/18) – an entity over which the Council has joint control</li> <li>• Partnerships, companies, trusts or any entities in which members/officers or a member of their close family or the same household has a controlling interest,</li> </ul> <p>NB precepting relationships and the Council's relationship with the pension fund (as an admitted body) are deemed to be agency arrangements and so these are not regarded as related parties. [However the annual Statements present a detailed analysis of transactions between the authority and both preceptors and the pension fund.]</p>
<p>Has the Authority entered into any transactions with these related parties during the period, if so, what are the type and purpose of these transactions?</p>	<p>Any transactions are in the normal course of business i.e. salaries / member allowances / contract payments / other service payments. However, a full review will be undertaken as part of the closure of accounts process as discussed.</p>

# Related parties considerations

Question	Management response
<p>What arrangements does the Council have in place to ensure that its Group activities correctly identify and account for related party transactions?</p>	<p>Ascent Housing LLP ; this joint venture with Your Housing LLP is required to produce audited accounts for consolidation in the Authority’s financial statements. Both the audit opinion (Grant Thornton) and consolidation process provide some assurance as to the organisation correctly accounting for related party transactions. Further assurance is provided by the two (of four) executive directors and the two (of four) non-executive directors nominated by the Authority to the board of Ascent.</p> <p>Alliance Environmental Services Limited [AES] ; this joint operation with High Peak Borough Council and ANSA Environmental Services Limited (trading arm of Cheshire East Unitary Council) is required to produce audited accounts for consolidation in the Authority’s financial statements. Both the audit opinion and consolidation process provide some assurance as to the organisation correctly accounting for related party transactions.</p> <p>To facilitate the Authority’s checking of the treatment of related party transactions the Services Operating Agreement imposes a number of obligations on AES;</p> <ul style="list-style-type: none"> <li>- To hold Monthly meetings with representatives of the Council to address operational matters</li> <li>- To prepare Statements for inclusion in the Quarterly Financial Performance reports presented to Corporate Select.</li> <li>- To produce on demand written summaries of costs.</li> <li>- To maintain open book accounting, allowing reasonable access to officer’s of the Council</li> <li>- To allow reasonable access to the Authority’s auditors both internal and external.</li> </ul> <p>Further assurance is provided by Council officers holding two of the five directorships that make up the AES Board. The board meets 10 times per year and all significant decisions of AES are subject to the unanimous agreement of all directors.</p>

# Accounting estimates

## Matters in relation to accounting estimates

Local authorities need to apply appropriate estimates in the preparation of their financial statements.

ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the Council is using as part of its accounts preparation; these are detailed in Appendix A. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates considerations have been set out overleaf and management has provided its response.

# Accounting estimates

Question	Management response
<p>Are the management arrangements for the accounting estimates, including identifying new estimates or revisions required, detailed in Appendix A reasonable?</p>	<p>Yes</p>
<p>How are transactions, events, and conditions identified that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements?</p>	<p>The most significant areas of estimation involve measurement of the pension liability and the valuation of property, plant and equipment:</p> <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>The valuations of property, plant and equipment reported in the Balance Sheet and the related depreciation charges are based on an estimation of their value and asset life.</p>
<p>Are there any changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?</p>	<p>No.</p>
<p>How is the Audit and Accounts Committee provided with assurance that the arrangements for accounting estimates are adequate?</p>	<p>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied when estimating the pension liability.</p> <p>A firm of qualified valuers is engaged by the Authority to carry out, for the major assets, a programme of physical valuations to ensure that their carrying values are subject to professional and independent assessment.</p>

# Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	<p>Valuations for land and buildings are made by the external valuer in line with RICS guidance on the basis of 5 year valuation with interim reviews.</p> <p>The Council applies a deminimis threshold of £10,000 in determining assets to be valued.</p> <p>Other assets are valued on the basis of depreciated historic cost as proxy for fair value as relatively short asset lives before replacement.</p>	<p>Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.</p> <p>The overriding requirement is that the carrying value is not materially different from the amount that would be determined by valuation and so the Capital Accountant considers factors (informed by Property Services Manager and external valuer) that would indicate where a valuation is required.</p>	<p>Use of Urban Vision augmented with internal Property Services (RICS valuer) for buildings valuations. Other assets considered by Services Manager and capital accountant.</p>	<p>Valuations are made in-line with RICS guidance – reliance on expert. Assumptions are set out in valuer's report. For other assets no revaluations but asset lives reviewed based on the operational experience of the service areas.</p>	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: <ul style="list-style-type: none"> <li>• Buildings range 30 to 70 years</li> <li>• Equipment/ vehicles 3 to 15 years</li> <li>• Plant 3 to 15 years</li> <li>• Infrastructure 25 years</li> </ul>	Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.	Use of Urban Vision augmented with internal Property Services (RICS valuer) for buildings valuations. Other assets considered by Services Manager and capital accountant	The method makes some generalisations. For example, building lives would vary depending on the construction materials used. This life would be recorded in accordance with RICS valuation. Detailed information is included in the valuers report for each asset. The lives used for other assets are based on operational experience of the service areas. The asset live is then recorded in the asset register.	No
Depreciation & Amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis	Consistent application of depreciation method across all assets	No	The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.	No

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Impairments	Assets are assessed at the year-end for any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets.	Use of Urban Vision augmented with internal Property Services (RICS valuer) for buildings valuations. Other assets considered by Services Manager and capital accountant	Valuations are made in-line with RICS guidance - reliance on expert.	No
Finance lease liability	At the inception of the lease the liability is the lower of the fair value of the asset or present value of the minimum lease payments. Payments are split between the finance charge and the element that reduces the liability.	Finance review contracts and payments over the de-minimus level to ensure the lease is categorised correctly as a finance lease or an operating lease.  Calculations supported by lease documents.	May obtain guidance to support lease classifications.	Assets recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).	No



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Pension liability	The Council is an admitted body to the Staffordshire Local Government Pension Scheme. The administering authority (the County Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
Non adjusting events - events after the BS date	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect	Managers notify the s151 officer	This would be considered on individual circumstance.	This would be considered on individual circumstance.	N/a
Bad Debt Provision.	A provision is estimated using a proportion basis of an aged debt listing.	The finance team obtain the aged debt listing from the sales ledger, local taxation and rental systems to calculate the provision	No	Consistent proportion used across aged debt as per the Code.	No

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Provisions for liabilities.	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No

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Accruals	<p>Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.</p> <p>While processes and procedures will be maintained to capture all accruals, resources will be focused on identifying individual transactions of £5,000 and above</p> <p>An Accumulated Absences creditor balance is at £109,000 to reflect the value of time owed to employees for accrued holidays, TOIL (time off in lieu) and flexitime. This balance is based on an historic value subject to annual review and amendment where there have been significant changes in staff numbers or working patterns</p>	<p>Review financial systems to identify where goods have been received but not paid for.</p> <p>Requests of service managers to identify any other goods or services received or provided but not paid for, concentrating on transactions greater than £5,000.</p> <p>Review of circumstances that indicate the approach to annual leave accrual is no longer valid.</p>	No	<p>Accruals for income and expenditure often based on known values.</p> <p>Where accruals are estimated the latest available information is used.</p> <p>The value of the accruals below the threshold of £5,000 identified in prior years is not a material amount.</p> <p>The annual leave accrual is based on historic records. An annual review will be performed to assess whether there any circumstances that mean the historic calculation of annual leave is no longer a reasonable estimate and whether the survey process needs to be performed on a partial or complete basis. Events likely to trigger such a decision would be significant changes in staff numbers or working patterns.</p>	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	<p>Financial assets are required to be classified and measured at fair value, with any changes in fair value recognised in Profit and Loss. The valuation should, where material, reflect any change in expected future cash flows. Thus for instance if there arises an expectation that future cash flows from an investment will be reduced this would impact on the current carrying value of that financial instrument.</p> <p>The Finance Team identify those assets where future cash flows are not now anticipated to be as expected at initial recognition of the instrument. Where material these changed cash flows are used to restate the carrying value of the financial instrument. This requires both estimation of future cash flows and their impact on the current carrying value of the instrument.</p>	<p>Annual review of financial instruments to identify where possibility of changed future cash flows.</p> <p>Where likely quantify using best estimates.</p>	<p>When considered necessary the Council's treasury advisers will be consulted.</p>	<p>The Authority's Treasury Management Strategy is such that investments are restricted to low risk entities.</p> <p>Where instruments have arisen out of operational requirements to support the aims of the council then the level of knowledge about the third parties is such that risk is minimised.</p>	<p>Yes. IFRS9 has introduced the need to reflect 'future losses' in the reported carrying value of financial instruments.</p>

