

Informing the audit risk assessment for Staffordshire Moorlands District Council 2023/24

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Staffordshire Moorlands District Council's external auditors and Staffordshire Moorlands District Council's Audit & Accounts 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 & Accounts Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit & 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 & Accounts Committee and supports the Audit & 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 Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Staffordshire Moorlands District Council's management. The Audit & Accounts Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>Management of the Disabled Facilities delivery process transferred to Alliance Norse (N-able) from 1st April 2023.</p> <p>The Council was successful in securing Levelling Up grant – the project, to deliver redevelopment of Leek Market Hall, Brough Park Leisure Centre and the Nicholson Institute, is due to complete over the course of the next 2 years.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Staffordshire Moorlands District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting policies are reviewed and updated on an annual basis as part of closedown process to ensure that any new policies are incorporated and that existing policies are correct.</p> <p>IFRS16 (leases)</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council's financial instruments include: cash investments, cash equivalents, debtors, creditors, external borrowing held at amortised cost as in previous years.</p> <p>The Council's financial instruments do not include any derivative arrangements.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>None</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Nothing that we are specifically aware of. This will be formally assessed in conjunction with the external valuers.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Staffordshire Moorlands District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has engaged Freeths, AF Brooks and company solicitors and Browne Jacobson during the year. Neither are working on litigation/contingencies from prior years.

General Enquiries of Management

Question	Management response
9. Have any of the Staffordshire Moorlands District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Other than legal advice, in terms of financial issues, the Council has engaged Link (treasury advice), Capita (valuations) and Zurich (insurance) , PWC (VAT) and Risk Management) Hymans Robertson Actuary (pension)
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Expected Credit loss (ECL) disclosure under IFRS9 is included in the 'Financial Instruments' notes of the accounts – there are no significant changes anticipated compared to previous year's statements.

Fraud

Matters in relation to fraud

ISA (UK) 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 & Accounts Committee and management. Management, with the oversight of the Audit & Accounts 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 & Accounts Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Staffordshire Moorlands District Council's external 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 & Accounts Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Accounts Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & 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 Staffordshire Moorlands District Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Staffordshire Moorlands District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Arrangements are in place to prevent and detect fraud which includes the work undertaken by Internal Audit, Council Tax and Benefits Teams.</p> <p>The Internal Audit plan covers the key systems which feed into the Statement of Accounts and audits are undertaken on a risk-based approach</p> <p>The Chief Executive, Executive Directors and Heads of Service complete and sign managers assurance statements on an annual basis confirming that the governance framework has been operating within their areas of responsibility.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The potential for fraud is considered when setting the audit plan – with potential high-risk areas then audited on a more frequent basis, such as: Treasury, services with cash transactions/collection, procurement, all financial feeder systems, Council Tax and Business Rates.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Staffordshire Moorlands District Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>Confirmation from the Monitoring Officer, Chief Financial Officer (CFO), Head of Audit, Head of Legal and Head of Finance has been obtained that no significant frauds have been identified during the year</p> <p>The Audit and Accounts Committee provides oversight.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>At management meetings including AMT (Alliance Management Team), ALT (Alliance Leadership Team), and at the Risk Management group. Also reported and scrutinised via oversight from the Audit and Accounts Committee.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Staffordshire Moorlands District Council where fraud is more likely to occur?</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>6. What processes do Staffordshire Moorlands District Council have in place to identify and respond to risks of fraud?</p>	<p>There are a number of policies and procedures in place including a Counter Fraud & Corruption Strategy, RIPA Policy & 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.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Staffordshire Moorlands District Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <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)? If so, please provide details</p>	<p>Annual review of the effectiveness of Internal Audit assessing compliance with PSIAS inc. external quality assessment every 5 years.</p> <p>Annual review of the effectiveness of the Audit & Accounts Committee.</p> <p>Quarterly internal audit progress reports are reported to the Audit & Accounts committee highlighting key issues.</p> <p>Overall internal controls work effectively and Internal Audit report on ineffective controls which are corrected by management.</p> <p>External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts.</p> <p>The Strategic Risk Register is presented to Audit Committee.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None significant. 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>The financial reporting process is subject to review by the S151 Officer.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Staffordshire Moorlands District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>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.</p> <p>Such policies and procedures are the subject of a detailed communications process, which includes extensive coverage during induction and training.</p> <p>The Council has a well publicised Whistleblowing Policy which encourages staff to report any concerns regarding fraud and irregularity through a variety of channels and a Counter Fraud and Corruption Strategy. No significant issues have been reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Treasury management risks are identified, assessed, audited annually and reviewed through Audit & Accounts Committee, with clear segregation of duties and authorisation limits.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Not aware of any related party relationships or transactions that could give rise to instances of fraud.</p> <p>Monitoring and controls in place mitigate the risk.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit & Accounts Committee ?</p> <p>How does the Audit & Accounts Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The committee maintains oversight through :</p> <ul style="list-style-type: none"> • Review and approval of policies and procedures including a Counter Fraud & Corruption Strategy, Regulation of Investigatory Powers Act and Whistleblowing Policy; • Review of risk management arrangements set out in the risk management policy, strategy and process; • Review of Internal Audit progress reports; • Review of Internal Audit Annual Report, which includes the opinion on the control environment; • Receiving periodic updates on the outcome of any fraud investigative work; • Receiving updates on actions taken to enhance controls and protect against the risk of fraud e.g. procurement arrangements; and • Consideration of reports from External Audit and any action plans setting out recommendations made. <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>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 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 & Accounts Committee, is responsible for ensuring that Staffordshire Moorlands District 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 & Accounts Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Staffordshire Moorlands District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</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>2. How is the Audit & 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. Standard reporting formats requires that legal implications are outlined in all committee reports. The Head of Audit 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>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Staffordshire Moorlands District Council have in place to identify, evaluate and account for litigation or claims?</p>	<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). 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 Head of Legal, the Insurance Officer and the Head of Customer Services (responsible for the Ombudsman related issues).</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>No</p>

Related Parties

Matters in relation to Related Parties

Staffordshire Moorlands District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Staffordshire Moorlands District Council;
- associates;
- joint ventures;
- a body that has an interest in the authority 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 body 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) 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 Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Staffordshire Moorlands District Council's 2023/24 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none">• the nature of the relationship between these related parties and Staffordshire Moorlands District Council• whether Staffordshire Moorlands District Council has entered into or plans to enter into any transactions with these related parties• the type and purpose of these transactions	<p>These won't be identified until the end of the financial year, once the related party letters are sent to the individual members.</p>

Related Parties

Question	Management response
<p>2. What controls does Staffordshire Moorlands District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<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"> • 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. • 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. • Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. • Review of related information with subsidiaries, companies and joint ventures, e.g. accounts. • Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation • Review of year end debtor and creditor positions in relation to the related parties identified. • Review of minutes of decision making meetings to identify any member declarations and therefore related parties.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Members are required to withdraw from the decision making process where they have declared a related party interest.</p> <p>All significant transactions are formally approved by the respective Executive Director / CEO</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Transactions outside of the normal course of business would be subject to S151 approval and be reported to Full Council</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Staffordshire Moorlands District Council will no longer continue?	The Medium Term Financial Plan considers the risks surrounding the financial viability of the Council's finances. It represents the annual outcome of the Authority's going concern assessment and documents the assumptions made on likely income and expenditure levels over the coming four year period. The impact on the Council's reserves position is assessed to ensure the Plan is sustainable. The process is subject to scrutiny twice a year in the run up to the setting of the budget. The MTFP is presented and approved by Full Council in February as well as presented for scrutiny prior to approval.
2. Are management aware of any factors which may mean for Staffordshire Moorlands District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No

Going Concern

Question	Management response
<p>3. With regard to the statutory services currently provided by Staffordshire Moorlands District Council, does Staffordshire Moorlands District Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Staffordshire Moorlands District Council to cease to exist?</p>	<p>Yes, no change</p>
<p>4. Are management satisfied that the financial reporting framework permits Staffordshire Moorlands District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes</p> <p>Yes</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Accounts Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit & Accounts Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Significant estimates expected to be included in the statement of accounts include:</p> <ul style="list-style-type: none"> •Valuation of PPE & Investment Properties •Financial Instruments Fair Value •NNDR appeals provision •Accruals •Pension Liability
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>They are identified as part of the annual closure of accounts process and documented with the Statement of Accounts. The management team are asked to confirm any potential contingent assets / liabilities.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>The Council engages a number of external (such as the actuary, treasury advisors, valuers) and internal (Finance, Legal and Asset teams) expertise to inform the estimates</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>The outcome of previous accounting estimates is reviewed as part of the estimation process in the following year and is considered up to the date that the accounts are authorised for issue.</p> <p>We are also reliant on the pension fund audit, audit of any group structures (AES & Alliance Norse) to provide assurance on the outcomes of previous accounting estimates</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	None identified, but as part of the 2023/24 accounts process, the Council will undertake further challenge and scrutiny of the reports received from valuers.
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>Based on materiality, skill set and capacity. External experts with specialist skills are utilised for the valuation of PPE and investment properties, financial instruments and pension liability.</p> <p>Finance staff attend relevant training and undertaken regular CPD, including attendance at Grant Thornton closure of accounts workshop.</p>
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>Based on materiality, also taking into account changes in regulatory / accounting environment. Reliance on external audit process of joint venture companies.</p> <p>Procurement process followed to engage suitable external expertise with relevant skills, expertise, experience and qualifications.</p>
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>External audit process of the pension fund / joint venture partners. Procurement process followed to engage suitable external expertise with relevant skills, expertise, experience and qualifications and ensure they are independent and professional.</p> <p>For areas of estimation where experts are not used, these are subject to review by the S151 Officer. Control arrangements are reviewed by internal audit and external audit and any findings reported to the Audit Committee.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>There is a specific section within the Statement of Accounts allocated to accounting estimates. These are formally reported to the Audit & Accounts Committee.</p>
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>All significant accounting estimates that require significant judgement are disclosed in Appendix A</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Yes – accounting estimates are undertaken by experienced finance staff with the required knowledge and skills who regularly undertake professional development included attendance at closure of accounts workshops.</p> <p>The Council utilises external expertise where not held internally.</p>
<p>12. How is the Audit & 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> <p>External and Internal audit also provide assurance as part of the audit process.</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?
Land and buildings valuations Investment property 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 de minimis 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 Capita Property and Infrastructure Ltd augmented with internal Property Services (RICS valuer) for buildings valuations.</p> <p>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.</p> <p>For other assets no revaluations but asset lives reviewed based on the operational experience of the service areas.</p>	No
Depreciation	<p>Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis</p> <p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> • Buildings range 30 to 70 years • Equipment/ vehicles 3 to 15 years • Plant 3 to 15 years • Infrastructure 25 years 	<p>Consistent application of depreciation method across all assets</p> <p>Specific asset lives applied to buildings.</p> <p>Consistent asset lives applied to each asset category.</p>	<p>No</p> <p>Use of Capita Property and Infrastructure Ltd augmented with internal Property Services (RICS valuer) for buildings valuations.</p> <p>Other assets considered by Services Manager and capital accountant</p>	<p>The length of the life is determined at the point of acquisition or revaluation.</p> <p>Major components are depreciated separately.</p> <p>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.</p> <p>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.</p> <p>The asset live is then recorded in the asset register.</p>	No No

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?
Valuation of defined benefit net pension fund liabilities	The Council is an employer authority within 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 review this estimate of contributions for reasonableness 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
Level 1,2 & 3 investments	<p>Basis for recurring fair value measurements:</p> <ul style="list-style-type: none"> •Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date. •Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. •Level 3 inputs: unobservable inputs for the asset or liability. 	For the valuation and disclosure of fair values of financial assets and liabilities the rates quoted were obtained from Link Asset Services (the Council's Advisors) using Level 2 Valuations.	Link Asset Services		No
Fair value estimates		For the valuation and disclosure of fair values of financial assets and liabilities the rates quoted were obtained from Link Asset Services (the Council's Advisors) using Level 2 Valuations.	Link Asset Services		No

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?
Provisions	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
Credit loss and impairment allowances	Simplified model on Trade Debtors ECL, an aggregate of many immaterial balances only approaching the testing materiality limit in total; Historic risk of default on deposits with banks etc - very minimal; loans to other parties all assessed individually.	Historic trends analysed and applied to debtors. Engagement with JV to ascertain impairment on debenture	Link for deposits with banks	Historic trends considered reasonable based on individual small values of outstanding debts and patterns of payment. Lack of negative evidence on other loans provides reasonable certainty.	No

Appendix A Accounting Estimates (Continued)

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?
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 £10,000 and above</p> <p>An Accumulated Absences creditor balance is at £97,000 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 £10,000.</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 £10,000 identified in prior years is not a material amount. 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



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