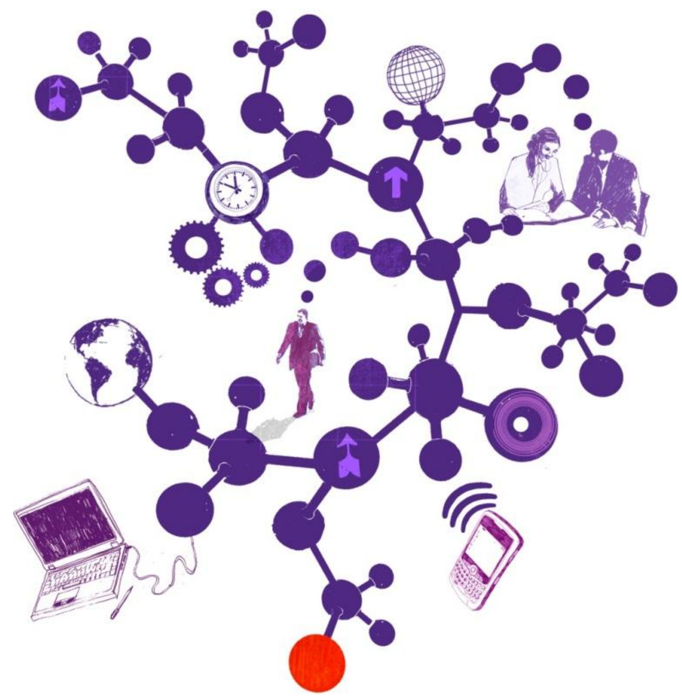
Communication with the Audit and Governance Committee
Cannock Chase District Council

Audit Year 31 March 2013



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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 and Governance 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 management and the Audit and Governance 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 and Governance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both us, as your auditors, and the Audit and Governance 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 Governance Committee and supports the Audit and Governance 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 and Governance Committee's oversight of the following areas:

- Fraud
- Laws and Regulations
- Accounting estimates
- Related parties

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

Fraud Risk Assessment

Issue

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 Governance Committee and individual officers. To do this:

- officers need to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour; and
- as part of its oversight, the Audit and Governance 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 and the intentional manipulation of the financial statements.

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 Governance Committee regarding these 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 Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance 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
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas, on Council Tax and Housing Benefit fraud. The risk of material misstatement of the accounts due to undetected fraud is low.
What processes does the Council have in place to identify and respond to risks of fraud?	The Council has an Anti-Fraud & Corruption Framework which incorporates the fraud response plan. There is also a Confidential Reporting Framework to allow concerns to be raised from within as well as by external parties.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	The susceptibility of services to fraud forms part of the Council's Audit Needs assessment process. This is provided to the Audit and Governance Committee. Training and awareness sessions are provided periodically.
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?	Internal Controls, including segregation of duties are in place and operating effectively No major risks have been identified. Furthermore, Internal Audit include fraud risks in their planning process and this acts as an effective internal control against fraud.
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)?	No areas have been identified.
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No areas have been identified.

Fraud Risk Assessment

Question	Management response
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	Internal Audit provide the Audit and Governance Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	There is a staff code of conduct and Financial regulations and staff are regularly reminded of these.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	There is an Anti Fraud and corruption framework and a Confidential reporting framework in place which explain the procedures to follow. Staff are expected to report suspicious or fraudulent behaviour. No significant issues have been reported. nor have any issues have been reported under the bribery act.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	2011/12 financial statement disclosure of related party transactions does not identify potential fraud risk. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.
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 2012?	There are no material instances of fraud that have been identified during the year. There are some areas that are inherently at risk from fraud such as: ■ Council Tax ■ Benefit fraud ■ Single person discount However, there is a dedicated benefits investigation team which investigates any benefit related fraud and the council takes part in the National Fraud Initiative.

Laws and Regulations

Issue

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 Governance 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 Governance 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 non-compliance and the possible effect on the financial statements.

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

Impact of Laws and Regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover: ■ complying with the law of the land (including any relevant Codes of Conduct); ■ complying with any General Guidance issued, from time to time, by the Standards Committee and / or advice of the Monitoring Officer; ■ making lawful and proportionate decisions; and ■ generally, not taking action that would bring the Council, their offices or professions into disrepute. The Monitoring Officer has access to all Council committee reports and raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the Monitoring Officer would get involved at an early stage. Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution. The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements.
How does management gain assurance that all relevant laws and regulations have been complied with?	As above.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	All committee papers are required to include an assessment of potential legal implications.

Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2012, or earlier with an on-going impact on the 2012/13 financial statements?	None.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Monitoring Officer and the Section 151 Officer identify and evaluate the impact of litigation and claims which are then recorded as expenditure, as a provision or disclosed as a contingent liability in the accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	None.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None.

Going concern

Issue

ISA(UK&I)570 requires us to consider going concern in an audit of the financial statements.

Going concern is a key concept in the preparation of the financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is, the basis on which those assets and liabilities are recorded and included in the accounts).

The going concern assumption is a fundamental principle in the preparation of financial statements. Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long-term liabilities would become short-term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on-going basis.

We discuss the going concern assumption with key Council officers and review the Council's financial and operating performance. Below are key Below are key questions on the going concern assumption to which your management has responded and we would like the Audit and Governance Committee to consider.

Going concern considerations

Question	Management response
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No events or conditions have been identified.
Does the Council have procedures in place to assess the Council's ability to continue as a going concern? Has a report been received from management forming a view on going concern?	The Financial Plan considers the financial position of the Council over the short, medium and long term and is designed to ensure the Council continues as a going concern. the The Head of Finance (as s151 Officer) is satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate.
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?	The Financial Plan has been prepared by appropriately qualified and experienced staff in consultation with service unit managers. The appropriate scrutiny committees also reviewed their respective financial plans before approval. The financial assumptions are therefore consistent with the Councils service plan. Reports in year are consistent with the budget set.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The financial plan explicitly considered the government changes in terms of grant settlement and the financial settlement. The plan is updated to reflect the financial settlement.
Have there been any significant issues raised with the Audit 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).	None.
Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No.
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?	Yes, adequate staff are in post.

Accounting Estimates

Issue

Matters in relation to accounting estimates

Councils 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 estimates that the Council is using as part of its accounts preparation; these are detailed in Appendix 1 to this report.

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.

Related Parties

Issue

Matters in relation to related parties

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

Councils are required to comply with IAS 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 authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- 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 authority, or of any entity that is a related party of the authority.

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 perspective but material from a related party viewpoint then the Council must disclose it.

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 Parties

Question	Management response
Who are the Council's related parties?	The Council has a significant number of related parties in which there is a material impact to the financial statements via virtue of - whether the Council might have the potential either to be controlled or influenced by the party or the potential to exert control or influence over the party (as defined by guidance in the Code). The areas where these are disclosed within the Council's financial statements are: (1) Government - central government grants has control influence over the Council as the Council needs to act in accordance with its statutory responsibilities. (2) Staffordshire County Pension Fund - this party is subject to common control by central government. (3) Precepts & Levies - these parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy. (4) Members and Officers - Certain Members and Officers may have controlling influence or related interests with other of the Council's related party organisations; such that they may be in a position to significantly influence the policies of the Council.

Related parties assessment

Question	Management response
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: ■ 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 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 the accounts payable system and identification of amounts paid to assisted or voluntary organisations.

Appendix 1: 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	Valuations are made by the in-house valuer in line with RICS guidance on the basis of 5 year valuations with interim reviews.	Accounting standards require formal revaluation every 5 years and consideration of any changes every year.	In – house Valuer	Valuations are made in line with guidance- reliance on an expert	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: ■ Dwelling and other buildings 15 to 70 years ■ Equipment/vehicles 5 years ■ Infrastructure 25 years These are based on information from the valuer.	Consistent asset lives applied to each asset category	Use the in-house Valuer	The method makes some generalisations. For example, a new building can have a life as short as 15 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS or CIB Member. The valuer is appropriately qualified.	No

Appendix 1: 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?
Depreciation & Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis. Asset lives and values are obtained from the valuer.	Consistent application of depreciation method across all assets	No	The length of the life is determined at the point of acquisition or revaluation according to: ■ Depreciation is not applied in the year of addition ■ Assets that are not fully constructed are not depreciated until they are brought into use.	No
Impairments	Assets are assessed at each year-end as to whether there is 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.	Use the Internal Valuer	Valuations are made in-line with RICS guidance - reliance on expert.	No

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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?
Non adjusting events - events after the BS date	S 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un adjusting 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.	Heads of service notify S151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances	No
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing	Members of the Finance team calculate the provision from the aged debt listing based on prior experience.	No	Consistent proportion used across aged debt as per the Code. This is based on type of debt and historic payment pattern.	No
Measurement of Financial Instruments	Council values financial instruments at fair value based on the advice of their internal treasury consultants and other finance professionals.	Take advice from finance professionals	Yes	Take advice from finance professionals, if required.	No

Appendix 1: 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?
Accruals	Finance Team collate accruals of Expenditure and Income from purchase ledger and budget information. Activity is accounted for in the financial year that it takes place, not when money is paid or received	Purchase ledger and management accounts information assessed by Finance team.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Provisions for liabilities	Provisions are made where an event has taken place that gives the Trust a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made. Provisions are charged as an expense to the appropriate service line in the CIES 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.	Calculations by Head of Finance based on information from third parties e.g. insurers and solicitors.	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 service if it is virtually certain that reimbursement will be received by the Council.	No

Appendix 1: 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?
Finance leases	Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	Finance review contracts and payments to ensure the lease is categorised correctly as a finance lease or an operating lease	No	Property, Plant and Equipment 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
Pensions – Defined benefit pension amounts and Disclosures.	The Council is an admitted body to the Local Government Pension scheme.	Rely on the calculations made by the actuary, based on information provided by the Authority. The Actuary's report is reviewed for reasonableness by senior staff.	Yes - Actuary for the pension schemes	Reliance on the expertise of the actuaries of the pension scheme	No