ITEM NO. 8.1

Informing the audit risk assessment for Cannock Chase District Council 2019/20

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.

Table of Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority'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 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 the auditor 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:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The Audit, Risk & Assurance 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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	IFRS16 new leasing standard to be implemented from the 1/4/20 but will require disclosure of potential impact in this years accounts. Business rates appeals.
2. Have you considered the appropriateness of the accounting policies adopted by the authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies have been reviewed within the finance team There are no events or transactions that will require us to change or adopt new policies.
3. Is there any use of financial instruments, including derivatives?	Financial instruments used are only in relation to: Money Market Funds Fixed term deposits Certificates of deposit
4. Is Are you aware of any significant transaction outside the normal course of business?	We are not aware of any significant transactions outside the ordinary course of business.

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?	Not aware of any changes
6. Are you aware of any guarantee contracts?	Cannock is acting as a guarantor for the finance agreement between Inspiring Healthy lifestyles and the finance provider. They are paying an amount as an equipment bond to cover the Council as part of the guarantee which will be repayable at the end of the guarantee period.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by the authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Solicitors used on insurance claims, appointed by insurance agents. Agency solicitors used in legal to cover vacancies Solicitors used on licensing issues
9. Have any of the authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Link asset services – Treasury and financial instrument valuations at year end Lambert Smith Hampton – Fixed asset valuations Other advisors used for land valuations and professional advice on regeneration

Fraud

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 Risk & Assurance Committee and management. Management, with the oversight of the Audit Risk & Assurance 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 Risk & Assurance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority'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 Risk & Assurance 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 Risk & Assurance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Risk & Assurance 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 Authority's management.

Fraud risk assessment

Question	Management response
1. Have the authority assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the authority's risk management processes link to financial reporting?	Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. The S151 Officer has the overall responsibility for assessing the risk of material misstatement in the financial statements and is supported by management who provide the appropriate evidence for this assessment. In addition, work is carried out by Internal Audit on overall fraud risk areas and specifically on Council Tax, Housing Benefit and Social housing payments fraud. All work undertaken by Internal Audit has fraud considerations built into it. The risk of material misstatement of the accounts due to undetected fraud is low. Investigation into Revenues & Housing fraud is the responsibility of the compliance team within Revenues and benefits.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The classes of transactions most at risk, relate to accounts payable, council tax and housing benefit
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the authority as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	None

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the authority where fraud is more likely to occur?	No specific fraud risks have been identified in the year. The potential for fraud exists in the application for financial benefits or assistance or in the handling of financial transactions. Fraud generally is likely to occur in the Revenues and Benefits function and the payment of creditors function.
5. What processes do the authority have in place to identify and respond to risks of fraud?	The Council have in place the following frameworks Anti Fraud and Bribery ; Confidential Reporting and Money Laundering. Internal Audit to review internal control procedures on a regular basis.
6. How would you assess the overall control environment for the authority, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect 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)?	Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	Misreporting could occur whereby management overrides controls however internal control and internal audit reviews are in place to mitigate this potential
8. How do the authority communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	The Council has a staff code of conduct, Confidential Reporting Framework and Financial regulations in place. All staff are regularly reminded of these. In respect of contractors ethical considerations are built into all contracts. 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 and no issues have been reported under the bribery act.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	The posts involved in the functions as identified in question 4 are potentially high risk posts together with Treasury Management . Internal control; Procedure notes; Separation of duties and management review exist to assess and manage this situation
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	2018/19 financial statement disclosure of related party transactions did not identify any potential fraud risks. 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.

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit Risk & Assurance Committee? How does the Audit Risk & Assurance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The Internal Audit Risk Based Plan is approved by the Audit and Governance Committee before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and report regularly to Audit and Governance Committee. The Audit and Governance Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting, Audit and Governance Committee members receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	None
13. Have any reports been made under the Bribery Act?	None

Law 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 Risk & Assurance Committee, is responsible for ensuring that the Authority'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 Risk & Assurance 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
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the authority have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the authority's regulatory environment that may have a significant impact on the authority's financial statements?	The Monitoring Officer, Heads of Service and Management are responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that the Monitoring Officers 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. Work undertaken by Internal Audit ensures compliance with the relevant laws and regulations
2. How is the Audit Risk & Assurance Committee provided with assurance that all relevant laws and regulations have been complied with?	All committee papers (with the exception of the Audit and Governance Committee) are required to include an assessment of potential legal implications. Assurance is also provided through the Internal Audit Annual Report and opinion and the Annual Governance Statement.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	Management are not aware of any
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No

Impact of laws and regulations

Question	Management response
5. What arrangements does the authority 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. This impact is mitigated in some cases by appropriate insurance cover.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Going Concern

Issue

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.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption 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.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for both the authority? What was the outcome of that assessment?	As part of the treasury strategy and the budget setting, the Council has produced a three year financial plan and believes the treatment of a going concern basis is reasonable.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the authority's business plan and the financial information provided to the authority throughout the year?	The Financial Plan has been prepared by appropriately qualified and experienced staff in consultation with service managers. The scrutiny committee also reviews financial plans before approval. The financial assumptions are therefore consistent with the Councils service plan. Reports in year are consistent with the budget set.

Going concern considerations

Question	Management response
3. 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.
4. Have there been any significant issues raised with the Audit Risk & Assurance 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).	Although assumptions are regularly challenged by the Audit and Governance Committee, no such issues have been raised.
5. 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?	Financial monitoring has not identified any such adverse financial indicators.

Going concern considerations

Question	Management response
6. Does the authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the authority's objectives? If not, what action is being taken to obtain those skills?	The Council has the relevant expertise to deliver the Council's strategy and objectives.
7. Does the authority have procedures in place to assess their ability to continue as a going concern?	The Financial Strategy considers the financial position of the authority over the short, medium and long term and is designed to ensure that the Council continues as a going concern. Internal Audit's work plan provides an on-going review of key elements of the Strategy to ensure its delivery or to highlight at an early stage any unforeseen risks. In addition the Treasury management strategy sets out the core cash balances of the authority over a 3 year budget period to 2022/23.
8. Is management aware of the existence of events or conditions that may cast doubt on the authority's ability to continue as a going concern?	No events or conditions have been identified.

Going concern considerations

Question	Management response
9. Are arrangements in place to report the going concern assessment to the Audit Risk & Assurance Committee ? How has the Audit Risk & Assurance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	The Audit and Governance Committee consider a number of reports which provide them with assurance that the Council continues as a going concern. These include the Statement of Accounts, Revenue and Capital outturn reports including analysis of reserves held, and Treasury management Strategies. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Council.

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities 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 authority perspective but material from a related party viewpoint then the authority 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
1. What controls does the authority have 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.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local Authorities 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 authority 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 authority 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.

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

Accounting Estimates

Question	Management response
1. Are management aware of 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)?	None identified.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
3. How is the Audit Risk & Assurance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Assurance is given by the use of expert advisers in relation to fixed assets and pensions, also via the statement of accounts which highlight the major areas of estimates.

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	Valuations are made by the in-house valuer for Council dwellings and an external valuer (Lambert Smith Hampton) for all other assets. Valuations are in line with RICS guidance on the basis of 5 year rolling valuations based on classes of asset with an interim desk top review to compare the carrying values and fair values.	Accounting standards require formal revaluations sufficiently regular to ensure the carrying amount does not differ materially from fair value at the year end. In addition valuations must be carried out simultaneously for each class of asset.	In – house and external Valuer	Valuations are made in line with guidance-reliance on an expert. Valuations now undertaken for each class of asset simultaneously.	No
Estimated remaining useful lives of PPE	The following asset categories have general asset lives: ■ Council Dwelling – 75 years ■ Other land and buildings – 65 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 both in-house And external 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 A (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?
Depreciation and 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 of external valuer.	Valuations are made in-line with RICS guidance - reliance on expert.	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 Link Asset Services	Take advice from finance professionals, if required.	No

Appendix A (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?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Authority 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
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

Appendix A (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	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
Non Adjusting events – events after the balance sheet 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

Appendix A (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?
Pension Fund (LGPS) Actuarial gains/losses	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 expertise of the actuaries of the pension Scheme	No
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

grantthornton.co.uk

Grant Thornton
An instinct for growth™

Bob Kean
Head of Finance & s151 Officer
Cannock Chase Council
Civic Centre
Beecroft Road
Cannock
WS11 1BG

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

T +44 (0)151 224 7200
F +44 (0)151 224 7201

1 June 2020

Dear Bob,

Preparation and audit of the 2019/20Statement of accounts

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times.

Preparation of the statement of accounts is the responsibility of the responsible financial officer. In this letter we set out some key issues relating to the preparation and audit of 2019/20 financial statements, some of which are also covered by CIPFA's recent Bulletin 05 Closure of the 2019/20 Financial Statements. We would welcome early engagement with you on these matters and will make arrangements to discuss them with you further.

Financial reporting issues arising as a result of the Covid-19 pandemic

As noted in Bulletin 05, there are numerous issues that will impact local authorities as a result of the Covid-19 pandemic.

Possible implications for the 2019/20 statement of accounts include:

- impairment of non-current assets
- impairment of investments
- changes in expected credit losses
- changes in the fair value of investment properties, surplus assets and financial instruments affecting measurement and disclosure
- events after the reporting period requiring adjustment to the accounts or disclosure
- increased estimation uncertainty
- commentary on the effects of the pandemic on the authority within the narrative report

Bulletin 05 provides guidance in relation to these matters and references the requirements of the Code. We would welcome early engagement with you regarding the authority's assessment of the impact of the pandemic on its 2019/20 statement of accounts.

Going Concern basis of accounting

Paragraphs 43-45 of Bulletin 05 refer to the Going Concern basis of accounting. It confirms that that local authorities can only be discontinued under statutory prescription and as such should continue to prepare their financial statements on a going concern basis. The bulletin also discusses whether an authority needs to make an assessment of its ability to continue as a going concern.

Grant Thornton UK LLP's view is that in preparing their financial statements authorities are required to disclose material uncertainties related to events or conditions that may cast significant doubt upon their ability to continue as a going concern. In view of the Covid-19 pandemic and pressures on local authority finances, consideration of this requirement will come into sharper focus in audits of 2019/20 financial statements.

In conducting your audit we will comply with our responsibilities under International Standard on Auditing 570 *Going Concern,* and also with Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom* issued by the Public Audit Forum to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

Accounting for the McCloud and Sargeant judgements in 2019/20

CIPFA published a McCloud Briefing (https://www.cipfa.org/services/networks/pensions-network/event-documents/cipfa-mccloud-briefing-note) on 9 March to assist local, police and fire authorities and LGPS funds in commissioning IAS19 valuations for inclusion in the 2019/20 statements of accounts. This Briefing provided some background to the McCloud and Sargeant judgements.

Subsequently on 30 April CIPFA has published Bulletin 05 Closure of the 2019/20 Financial Statements (https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements).

Grant Thornton's UK LLP's view remains as communicated during our 2018/19 audit. The two tribunals give rise to a legal obligation that is required to be measured under IAS 19. Disclosure of a contingent liability in relation to the McCloud and Sargeant judgements is not, in our view, appropriate, and where this has a material impact on the financial statements, we would have to consider the implications for our opinion.

Deferral of the implementation of IFRS 16 *Leases*

At its meeting on 27 March CIPFA/LASAAC agreed to defer the implementation of IFRS 16 Leases to the 2021/22 financial year, with an effective date of 1 April 2021. This decision aligns with the proposals across the public sector.

Although the implementation of IFRS 16 has been delayed to 1 April 2021, in our view authorities still need to include disclosure in their 2019/2020 statements to comply with the requirement at 3.3.4.3 of 2019/20 Code and underlying requirement of IAS 8 paragraphs 30 and 31. As a minimum, we would expect authorities to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, we expect the financial statements to state this.

Valuation uncertainty and RICS Covid-19 Valuation practice alert

The Code requires that where assets are revalued the revaluations shall be sufficiently regular to ensure that carrying amounts do not differ materially from current value at the end of the reporting period.

We note a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19, and that different markets will react differently. RICS has issued a Valuation practice alert following the pandemic, and in practice we are noting that a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Our expectation is that authorities will assess the impact of such disclosures, taking account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in relation to major sources of estimation uncertainty.

I hope this is helpful and I look forward to engaging with you on the issues raised in this letter.

Yours sincerely

John Farrar

Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

PAGE INTENTIONALLY BLANK

ITEM NO. 8.34

Grant Thornton

An instinct for growth™

Covid-19 and Local Government

A Grant Thornton briefing for audit committees

June 2020

ITEM NO. 8.35

Context

Public services, including local government, have been at the forefront of the emergency response to the Coronavirus (COVID-19) pandemic. Very few local government services have not been impacted by COVID-19, as councils have had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and vulnerable citizens. They have also had to redeploy people to new roles and repurpose assets to new functions. For example, by closing leisure centres and repurposing them as temporary mortuaries or food banks.

Prior to COVID-19 local government had to adapt to significant reductions in funding during a period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this high level reduction are much larger reductions in expenditure on specific service lines. In broad terms, councils managed austerity by significantly reducing spending on discretionary services, in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils had to place greater reliance on fees and charges income. They have also had to be innovative in generating new income sources, particularly taking more commercial approach. This commercialisation trend is now changing, however, as authorities seek to balance social outcomes with financial sustainability.

COVID-19 has had a further significant impact on local government finances. This is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to close services, such as leisure centres, and reductions in income from other sources, such as car parking, business rates and council tax; and
- non-delivery of savings plans

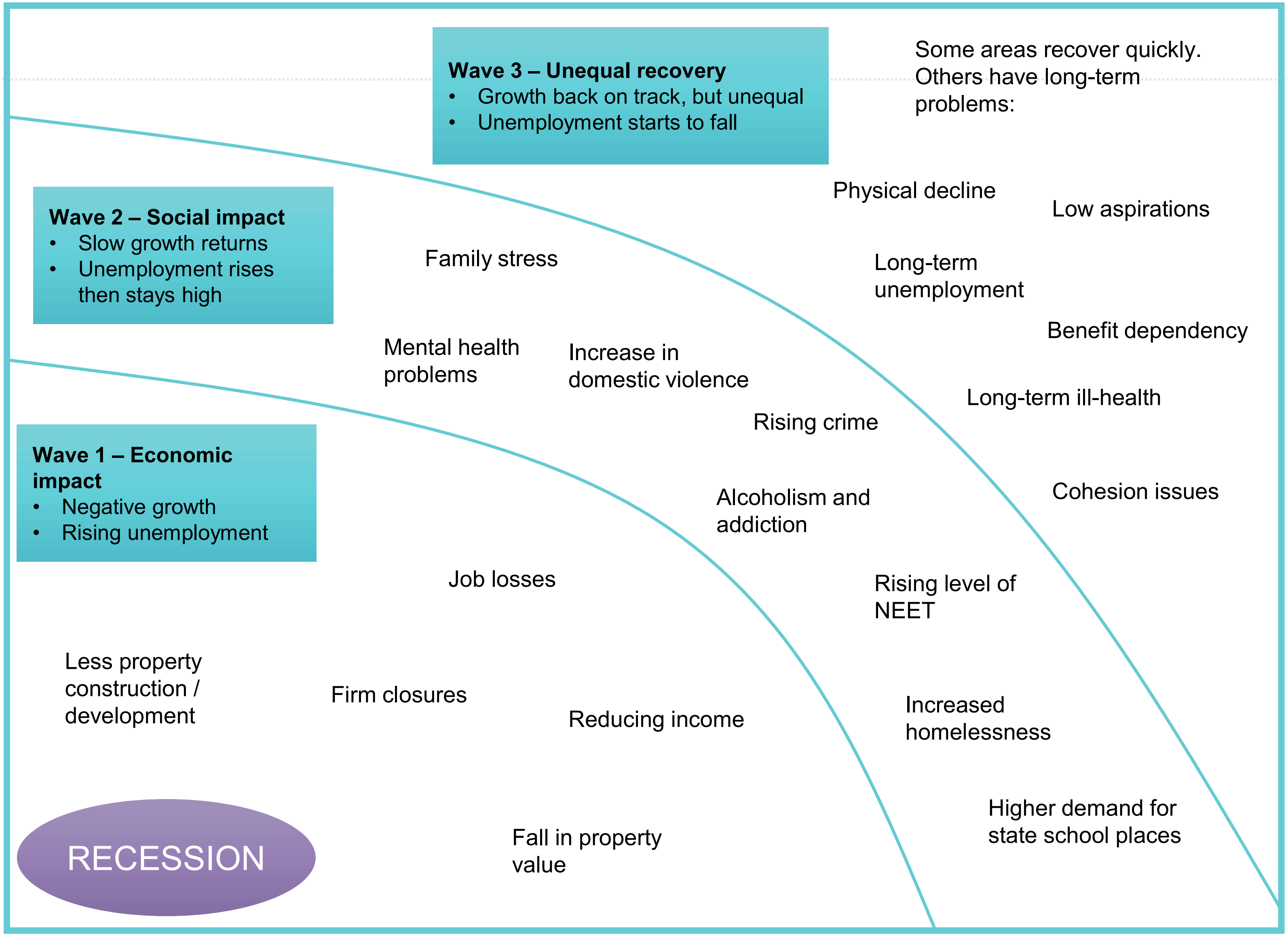
Whilst central government has made significant additional funding contributions to local government, in recognition of the financial consequences of COVID-19, the total funding gap for councils in England is currently estimated to be £6billion by the Local Government Association. The sector is still in the process of determining the longer term financial impact. Tranches of government funding provided so far have generally focussed on alleviating financial pressures created by COVID-19 related to additional council expenditures, so have limited benefit in offsetting lost income, such as that relating to leisure services, car parking income and other fees and charges.

This stark financial context has significant implications for the sector. Particularly as councils start to move from the emergency response stage to the recovery planning stage of COVID-19. The key risks councils will therefore need to consider include:

- how they stand up closed services such as leisure centres, the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from COVID-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of COVID-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap.
- exploration of opportunities for more radical change that may have arisen from COVID-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Given the fast moving events and new policy announcements by government in response to Covid-19 Clearly these risks are subject to change and this is not an exhaustive list. However, understanding these various scenarios, their potential financial implications, and resources available to deliver them will nevertheless be critical over the short to medium term.

Can we learn from previous recessions?

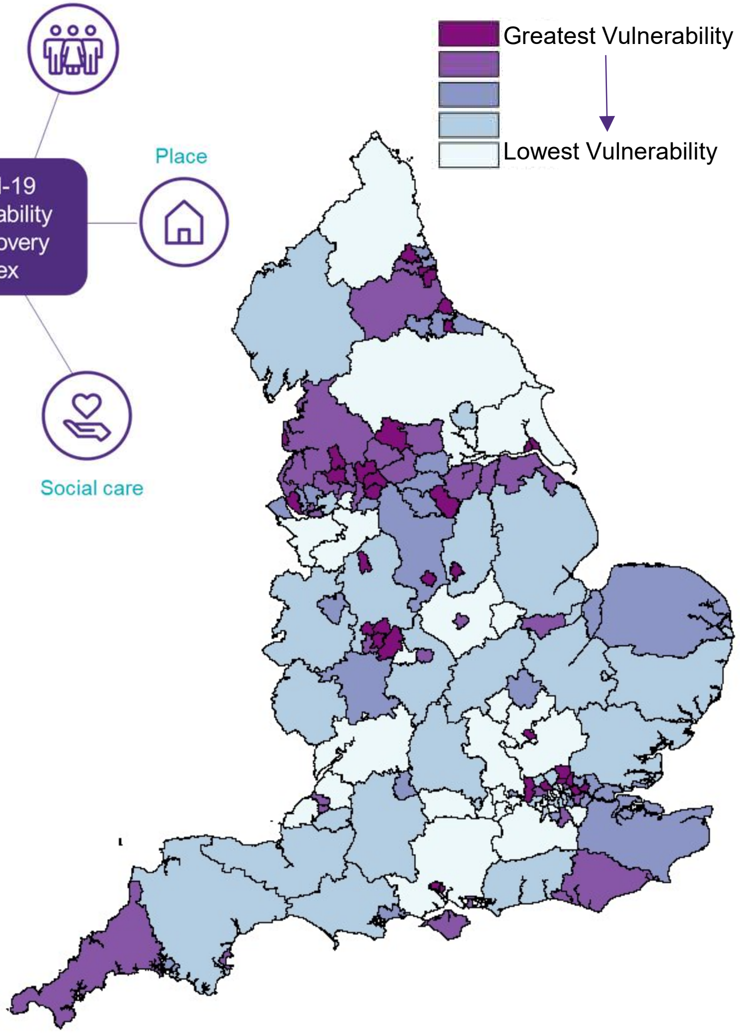


Source: Audit Commission

ITEM NO. 8.37

Covid-19 Vulnerability Index

Overall Index (including Financial Recovery basket)



ITEM NO. 8.38

Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	• Multiple lockdowns and ongoing disruption • Community dependency and expectation of sustained response • Turbulence and activism within the VCS • Socio-economic inequality is compounded • Failure of leisure and cultural services	• Smooth exit from lockdown to a “new normal” • Community mobilisation is channelled into ongoing resilience • Strengthened VCS relationships and focus • Systemic response to inequality is accelerated • Leisure and cultural services adapted to social distancing
Business & economy	• 16% reduction in GVA for 2020 based on OBR reference scenario • Slow / uneven economic recovery and “long tail” on unemployment • Central gov / BEIS focus investment on areas furthest behind • Loss of tourist & student spend causes unmitigated damage • 'V' shaped recovery results in 2-3 year recovery period	• 5-10% reduction in GVA • Rapid economic recovery with employment levels close behind • Central government “back winners” with investment • Adaptation allows resumption of tourist and student economy • Business base is weighted towards growth sectors
Health & wellbeing	• Increased demand and escalating need due to fallout from lockdown • Newly-vulnerable cohorts place strain on the system • Unit costs increase further as markets deteriorate and providers fail • SEND transport unable to adapt to social distancing • Imposed disruption of care system	• Positive lifestyle changes and attitudes to care reduce demand • Needs of newly vulnerable cohorts met through new service models • New investment in prevention and market-shaping manage costs • New ways of working leading to stronger staff retention • Locally-led reform of health and care system
Political & regulatory	• Local government side-lined by a centralised national recovery effort • Unfunded burdens (e.g. enforcement and contact-tracing) • Councils in the firing line for mismanaging recovery	• Local government empowered as leaders of place-based recovery • Devolution and empowerment of localities • Councils at the forefront of civic and democratic renewal
Environment	• Opportunity missed to capture and sustain environmental benefits • The end of the high street / town centres • Emissions and air quality worsened by avoidance of public transport • Capital programmes stuck	• Ability to invest in transport modal shift and green infrastructure • Changed working patterns rejuvenate town centres • Sustained impact on emissions due to new behaviours • New, shovel-ready infrastructure programmes
Organisational	• Inadequate funding forces fiscal constraint • Working practices return to status quo – increased operating costs • Imposed structural change within the place • Austerity 2 • Commercial portfolio becomes a liability	• Adequate funding enables a programme of targeted investment • Learning and adaptation to new operating environment • Energised system-wide collaboration and reform • Fiscal reform and civic renewal • Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

ITEM NO. 8.40

Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy and to existing Government priorities such as levelling-up and future proofing against covid related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development	Recovery plan implementation
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release
Planning for standing up closed services	Place-based leadership – working with other public services, private and third sector to redefine place
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising	Redefining front-line services, council as match-maker, convener and incentivisor as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families).
Review of supply chain vulnerability	More long-term and strategic partnerships and funding models for third sector
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs
Providing leadership for longer-term investment and delivery, to support economic recover rather than just focusing on short-term actions	Review and update Local Plan
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments
Renewed strategic financial planning and focus on financial management	Emergency planning reviews and learning
Data recognised as core pillar of city resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning
Government monitoring regime on additional funding for councils and covid funding administered by councils	Increase in outcomes based procurement and focus on social value

Grant Thornton

An instinct for growth™

grantthornton.co.uk