

# Informing the audit risk assessment for Cheshire East Council

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## Year ended

31 March 2015

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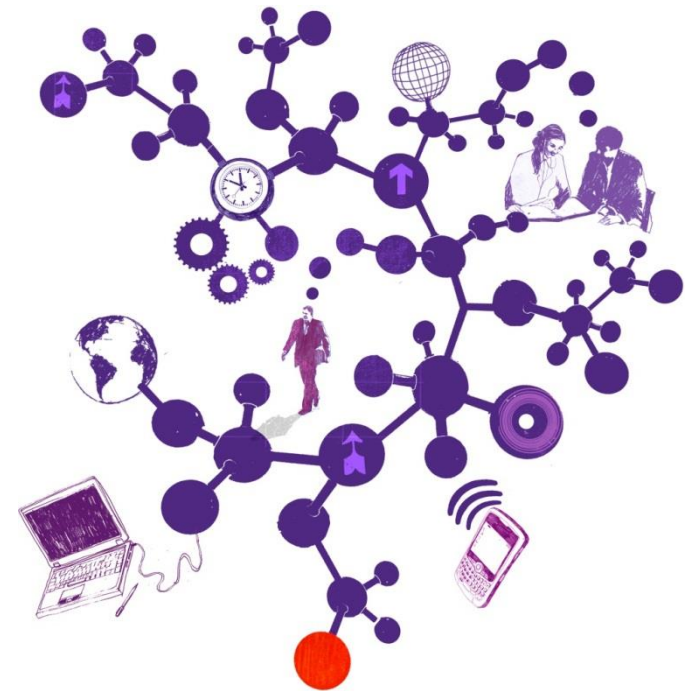
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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 auditors and Cheshire East 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 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 Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit 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 Committee and supports the Audit 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
- going concern.

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

## 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 management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and 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.

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 its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and 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

**Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?**

## **Management response**

The Council's risk management process has identified the following as a Strategic Risk:

***Fraud Risk:*** Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption including bribery, particularly at a time of financial hardship, such that public money is misappropriated. This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.

Risks are subject to on going review in accordance with the Council's Risk Management Strategy. The fraud risk was last formally reviewed in January 2015 when, following the identification and assessment of mitigating controls, the net risk was scored as medium.

In 2013 an ASDV framework was produced setting out the approach of the Council to setting up new ASDVs. This was proposed to be used as a manual for all officers and included checklists, key issues to consider across all disciplines (e.g. HR, ICT, Assets etc.) timelines and laid out an approach to risk management in relation to the creation of ASDVs. This was followed by two reports which were approved by Cabinet on 24th March 2014:

- Cheshire East Ltd – Group Structure and Governance Arrangements. This set out a comprehensive governance framework for the new companies.
- Decisions for ASDVs – this agreed the key policy decisions that the Council needed to take with regard to all companies e.g. treatment of Pensions liabilities, payment arrangements, guarantees from the Council and key contractual terms.

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# Fraud risk assessment continued

## **Management response continued**

All proposals to set up ASDVs are subject to scrutiny and approval through the Council's standard project management framework. This involves the creation of an outline business case which is developed into a detailed business case, which is then considered and critiqued by an officer Technical Enabler Group (TEG) and an Executive Monitoring Board (EMB). Projects which gain approval from these bodies then progress through to Cabinet for final approval. The detailed business cases for all ASDVs have been through this process.

# Fraud risk assessment continued

## What processes does the Council have in place to identify and respond to risks of fraud?

### Management response

In addition to the strategic risk identified on page 6 above, a detailed Fraud Risk Assessment was produced in order to identify service specific risks to which the Council may be vulnerable.

This assessment was initially produced by the Risk and Performance Manager and the Principal Auditor (Fraud) and took into account the areas identified in the Strategic Fraud Risk, local knowledge and also those risks identified in national publications such as Protecting the Public Purse and Fighting Fraud Locally. It was then shared with service managers to obtain their input and ensure that all significant risks had been identified.

## Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?

### Management response

In common with many other local authorities, Cheshire East Council has in place robust arrangements for the identification, investigation and prosecution of Housing Benefit Fraud. It is, however, acknowledged that arrangements are less well developed in other, non benefit, related areas but no specific or significant frauds have been identified during the year.

This issue was discussed with Internal Audit colleagues at neighbouring authorities and a collaborative bid was developed and submitted to the Counter Fraud Fund to pay for a Counter Fraud Analyst post to work across the four Cheshire authorities. The bid for funding was successful and a recruitment exercise is currently underway. The objective of the role is to focus on areas identified as being at high risk of fraud and to develop awareness raising tools and training materials. The initial focus will be on procurement and insurance.

The Fraud and Bribery Risk Assessment was developed based upon local and national knowledge and seeks to identify areas that are vulnerable to fraud. Internal Audit will seek assurance as to the effectiveness of mitigating controls in line with the Annual Audit Plan.



# Fraud risk assessment continued

**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?**

## **Management response**

The AGS ensures a continuous review of the Council's governance arrangements, to give assurance on the effectiveness of the arrangements and/or to address identified weaknesses including the application of internal controls.

The AGS is considered by the Corporate Leadership Board with the collection of evidence for, and the drafting of it being the responsibility of the Corporate Assurance Group. The review of governance arrangements in place is informed by the work of Internal Audit and senior managers and also comments made by the External Auditors and other review agencies/inspectorates.

Sources of assurance include the Directors, Heads of Service and senior managers signing off the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to, and considered by the Audit and Governance Committee in order that Members may discharge their duties with regard to approving the AGS.

Where weaknesses are identified they are addressed by the production of an action plan which is subject to monitoring by the Corporate Assurance Group (CAG).

The production of the AGS also takes into account the annual internal audit opinion which provides assurance as to the adequacy of the Council's control environment and the action taken to ensure that any shortcomings are rectified promptly.

With regards to the production of the AGS for 2014/15 a draft statement and action plan will be presented to the Audit and Governance Committee in June 2015 along with Internal Audit's Annual Report, and the final version will be put in front of the September 2015 meeting of the Committee.

Internal Audit work also provides assurance as to the effectiveness of internal controls and, where weaknesses are identified, mitigating actions are recommended to managers.

# Fraud risk assessment continued

## Management response continued

A programme of audits is carried out in accordance with the Audit Plan that is approved by the Audit and Governance Committee. The work includes the Council's fundamental financial systems in order to gain assurance that the systems of financial control are in place and operating effectively.

Internal Audit undertakes testing on internal controls by examining their effectiveness and in this way the Council can gain reasonable assurance with regard to the potential for override of management controls or other inappropriate influence over the financial reporting process. The outcome of each audit assignment is reported to management in order to:

- give an opinion on the risk and controls of the area under review, building up to the annual opinion on the control environment
- prompt management to implement the agreed actions for change leading to improvement in the control environment and performance
- provide a formal record of points arising from the audit, and where appropriate, of the agreements reached with management, together with appropriate timescales.

Interim reports on progress against and revisions to the Internal Audit Plan, together with a summary of work undertaken are received by the Audit and Governance Committee. The reports provide the Committee with an overview of the Council's response to internal audit activity to ensure any shortcomings in the control environment are rectified promptly. In June 2015 the Audit and Governance Committee will receive Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's control environment for 2014/15.

# Fraud risk assessment continued

**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)?**

## **Management response**

Internal Audit work around key systems has not identified any areas of concern.

The Council receives quarterly performance monitoring reports from all its ASDVs and this ensures that they receive detailed scrutiny in a similar fashion alongside in house Council service areas. All financial reports are produced by Council staff who report to the Accountancy Services Manager using the same financial system and operating under the same control environment as in house service areas.

**How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?**

## **Management response**

Audit and Governance Committee receive regular Risk Management Update reports which provide information relating to the Corporate Risk Register. The latest, received in January 2015, provided an update on the status of risks included within the Corporate Risk register, including the fraud risk.

The AGS process, particularly the Head of Service Assurance Statements, provides the Audit and Governance Committee with an understanding of the processes in place, any identified issues and mitigating actions.

# Fraud risk assessment continued

## Management response continued

Internal Audit Update Reports to the Committee include details of Counter Fraud Work undertaken in accordance with the plan and in addition to this the Committee received the following reports during the past year:

- March 2014 Informing the Risk Assessment for Cheshire East Council- this provided detailed information regarding the anti fraud and corruption arrangements and how the Council identifies and responds to the risk of fraud. This report also included details of the number of prosecutions taken by the Housing Benefit Fraud Team.
- January 2015 Fraud and Corruption Update Report – this provided Members with an overview of developments taking place nationally, an update on activity at Cheshire East, and, details of work planned to ensure compliance with best practice including the Code of Practice on Managing the Risk of Fraud and Corruption.

Further oversight is provided to members of the Anti Fraud Member/Officer Sub Group which is one of a number of groups established in 2011 to enable individual Members to become more involved in specific areas of audit and governance work as a means of developing in-depth knowledge and expertise.

Audit and Governance Committee received a report in November 2014 as required by the Constitution, to update the Committee on Compliance with Contract Procedure Rules (CPRs) and also to provide an outline of the improvements being implemented via procurement that involved and required changes to the Contract Procedure Rules. Following these revisions to the Council's Contract Procedure Rules (adopted on 1 January 2015) responsibility for receiving reports regarding non adherence has transferred from the Audit and Governance Committee to the Procurement Board.

# Fraud risk assessment continued

## How does the Council communicate and encourage ethical behaviour of its employees and contractors?

### Management response

The Council ensures that the standards of conduct expected of staff are defined and communicated through, for example, Codes of Conduct, an Anti-Fraud and Corruption Strategy and the Whistleblowing Policy. Such policies, together with the Council's Constitution, prescribe the arrangements that ensure all staff and contractors are aware of the standards expected of them.

Cheshire East Council adopted a Code of Corporate Governance in 2009 which was updated in November 2013 and is subject to annual review, and update, where necessary.

In January 2015, the Audit and Governance Committee received a report entitled Revising the Council's Code of Corporate Governance which allocated responsibility to the CAG for the detailed review of the Code which will be updated and reported to the June 2015 meeting of the Committee.

The Council undertakes an annual review of its governance arrangements to ensure continuing compliance with best practice as set out in the Framework. The Annual Governance Statement (AGS) is that review. The Council is required to prepare and publish the AGS.

Principle 3 of the Council's Code of Corporate Governance is promoting the values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour. The following paragraphs summarise the arrangements:

- All employees are governed by the Council's Financial and Contract Procedure Rules. They are required to follow the standards set out in the Code of Conduct, which is issued to all staff along with their Contract of Employment. Employees who consider other employees to be guilty of misconduct must report this to their line manager or raise it through one of the other available procedures. Employees are further governed by the Council's HR Policies (Disciplinary Procedure etc), which are issued to all staff. The Codes are communicated via briefings, training and are available on the Council's intranet and internet.

# Fraud risk assessment continued

## Management response continued

- The role that employees are expected to play in the Council's framework of internal control is included in staff induction procedures by their line manager and then subsequently through corporate induction training, as appropriate.
- The Anti Fraud and Corruption Strategy states that Cheshire East Council expects its employees to comply with codes of practice or other relevant professional obligations issued by professional bodies of which they may be members. Furthermore it reminds employees that they must comply with Section 117 of the Local Government Act 1972 which requires any interests in contracts that have been proposed to be entered into by the Council to be declared. The Legislation also prohibits the acceptance of fees or rewards other than by means of proper remuneration.
- Employees must register any interests they may have in the departmental register recording Declarations of Interests.
- All offers of gifts and hospitality, regardless of whether the offer was accepted or declined, must be recorded in the departmental register. Such registers should be reviewed by the appropriate departmental management team on a regular basis and a record kept of such review.

# Fraud risk assessment continued

**How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?**

## **Management response**

The Council's Anti Fraud and Corruption Strategy states that Cheshire East Council's Members and employees are positively encouraged to raise concerns regarding fraud and corruption, immaterial of seniority, rank or status, in the knowledge that such concerns will be taken seriously and wherever possible, treated in confidence and properly investigated.

Concerns must be raised when Members or employees reasonably believe that one or more of the following has occurred, is in the process of occurring, or is likely to occur:

- a criminal offence
- a failure to comply with a statutory or legal obligation
- improper and/or unauthorised use of public or other funds
- a miscarriage of justice
- maladministration, misconduct or malpractice
- endangering of an individual's health and safety
- damage to the environment
- deliberate concealment of any of the above

Concerns must be raised firstly with the supervisor/line manager or, where a person feels unable to do this, via other routes, for example:

- Heads of Service, Directors, or the Chief Executive, who will report such concerns to the Internal Audit Manager or their authorised representative
- Directly to the Internal Audit Manager or a senior member of the internal audit team
- The External Auditor, who depending upon the nature of the concern will liaise with the Internal Audit Manager or Section 151 officer
- The Monitoring Officer as outlined in the Confidential Reporting (or Whistleblowing Protocol)
- The Customer, Compliments, Comments and Complaints procedure for use by the general public

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# Fraud risk assessment continued

## Management response continued

The Council ensures that any allegations received in any way, including by anonymous letters or telephone calls are taken seriously and investigated in an appropriate manner.

In order to facilitate the reporting of concerns, the Council has in place a Whistleblowing Policy which was produced in accordance with best practice as set down in the PAS 1998:2008 Whistleblowing Arrangements Code of Practice which was produced by the British Standards Institute. The Whistleblowing Policy was reviewed and updated during 2014 with the latest version presented to and approved by the Audit and Governance Committee in June 2014.

## Are you aware of any related party relationships or transactions that could give rise to risks of fraud?

### Management response

Council Officers are required to declare details of related party interests which are then reviewed by senior managers to ensure no staff members are in a position where they could unduly influence Council activity in relation to these parties. Senior Officers and Members are also required to complete an additional related parties disclosure to identify any relationships they or a close family member have with a potential Council trading partner.

Reviews of such returns to date and in previous years have not indicated any relationships that would lead to a materially increased risk of fraud.



# Fraud risk assessment continued

**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 2014?**

## **Management response**

None which have a material impact on the financial statements.

Cheshire East Council actively pursues those committing benefit fraud offences issuing cautions, administrative penalties and in the most serious cases taking criminal proceedings through the courts.

The number of sanctions and prosecutions for the period 1 April 2014 – 31 January 2015 are as follows:

Cautions	26
Administrative Penalties	31
Prosecutions/Convictions	49

**Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2014? If so how does the Audit and Governance Committee respond to these?**

## **Management response**

No reports have been made under the Bribery Act since 1 April 2014. Various whistleblowing reports have been received through the year but none which would have a material impact upon the financial statements.

Audit and Governance Committee last received a report detailing whistleblowing activity in June 2014 with the next update scheduled for the June 2015 meeting.

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# 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
<b>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</b>	<p>The Council has in place , within the Constitution, various procedure rules which set out how budget and policy decisions are made. Officers are required to ensure compliance with relevant laws and regulations and that lawful expenditure is delivered. Such arrangements are designed to provide reasonable assurance with regard to compliance rather than absolute certainty, because systems are susceptible to human error and poor judgment , controls can be deliberately circumvented or over-ridden.</p> <p>Reports provide a section for legal implications, and reports cannot go before Cabinet or Council without this being addressed. The Council's Statutory Officers have a positive responsibility to report to the Council, in respect of:</p> <ul style="list-style-type: none"><li>• co-ordination of functions, staff and management matters – the Head of Paid Service</li><li>• financial administration, probity and propriety – the Section 151 Officer</li><li>• legality and administration – Monitoring Officer</li></ul>
<b>How do management gain assurance that all relevant laws and regulations have been complied with?</b>	<p>Internal Audit's annual plan contains a programme of work that includes reviews of compliance with policies, procedures, laws and regulations. Management, therefore, gain assurance that relevant laws and regulations have been complied with via Internal Audit opinion and interim reports. Furthermore, as part of the AGS process the Directors, Heads of Service and Senior Managers are required to sign off on the adequacy of controls within their service areas/directorate via disclosure statements. The disclosures are made available to and considered by the Audit and Governance Committee in order that Members may discharge their duties with regard to approving the AGS.</p> <p>Progress against the actions in the AGS Action Plan is monitored throughout the year by the Corporate Assurance Group and reported to Audit and Governance Committee.</p> <p>In addition to these internal reviews, key areas of activity across the council are subject to external assessment by bodies such as Ofsted, CQC and the Information Commissioner.</p>

# Impact of Laws and regulations

Question	Management response
<p><b>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014 with an on-going impact on the 2014/15 financial statements?</b></p>	<p>No instances of non-compliance are known to exist that will have an ongoing impact on the 2014/15 financial statements.</p>
<p><b>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</b></p>	<p>Legal Services assess litigation claims in conjunction with Finance Officers.</p> <p>The process to identify any litigation or claims in year that would affect the financial statements is completed as part of the closure of the accounts. This includes a year end review undertaken by the Head of Legal Services and the Accountancy Service Manager.</p> <p>Where the Council believes that there is a potentially legitimate legal claim against it then this will be recognised on the balance sheet as a provision using the Council's best estimate of the likely costs it may incur. Where a claim is less likely to be successful but if successful could be material then it will be disclosed in the financial statements as a contingent liability.</p> <p>The status of insurance claims are reviewed regularly. In 2014/15 an actuarial investigation of the claims reserves has been undertaken. The results will be factored into the Council's assessment of the level of its self-insurance and the procurement of external insurance.</p>
<p><b>Is there any actual or potential litigation or claims that would affect the financial statements?</b></p>	<p>There are potentially two litigation claims that have been identified by Legal Services but these are considered not to have a material impact on the financial statements.</p>
<p><b>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</b></p>	<p>There have been no inspections or reports from HMRC within 2014/15.</p> <p>Changes introduced in relation to new ASDVs have been discussed and agreed with HMRC.</p>

# 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 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).

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.

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

# Going Concern Considerations

Question	Management response
<p><b>Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</b></p>	<p>Yes, the Council undertakes a review of its status in advance of producing the Annual Statement of Accounts and has procedures in place to make that assessment including the following:</p> <ul style="list-style-type: none"><li>• The Councils Medium Term Financial Strategy 2015/18 and Treasury Management Strategy were approved by Council on 26 February 2015.</li><li>• The Three Year Summary Position identified the continued grant funding stream from government and future levels of council tax income. The report also considered the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals, so that members had authoritative advice available to them when they made their decisions.</li><li>• The Council has also published Guidance and Data on the Financial Resilience of the Council. The Council's Three-Quarter Year Review of Performance was reported to Cabinet in February 2015. This predicted a small underspend of £0.2m against budget.</li><li>• Financial Control is identified as a key risk in the Corporate Risk Register: <i><b>Financial Control:</b> Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves, thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's objectives and outcomes.</i></li><li>• As part of the approval process for the Statement of Accounts the Section 151 Officer will provide assurance regarding the key risks, policies and concepts applicable to the accounts and any such disclosures that are necessary to present fairly the financial position of the Council at its year end.</li><li>• All wholly owned companies benefit from a number of guarantees put in place by the authority. Their contributions to the Cheshire Pension Fund are guaranteed by the Council and each company receives regular payments in advance from the Council to cover known expenses. To cover unforeseen events each company also has access to an automatic loan facility from the council, repayable on commercial terms.</li></ul>

# Going Concern Considerations

Question	Management response
<p><b>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?</b></p>	<p>There are no events or conditions which would impact on the Councils status as a going concern.</p> <p>The Council has set a balanced budget for 2015/16 and provided projections for future years with knowledge of all anticipated changes in Council expenditure and funding through to 2017/18. Given the Council's cautious attitude to including income or savings only when definite projects or government announcements are known, there is a gap between income and expenditure in years two and three. As in previous years the Council expect these challenges to be overcome in good time to present a further balanced budget for 2016/2017.</p>
<p><b>Are arrangements in place to report the going concern assessment to the Audit and Governance Committee?</b></p>	<p>Yes, as part of the reporting process to the Audit and Governance Committee which includes the Treasury Management Strategy and Annual Report; the Statement of Accounts and Annual Governance Statement and regular updates on the Corporate Risk Register</p>
<p><b>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?</b></p>	<p>The Council has set a balanced budget for 2015/16 and this will have taken into account relevant financial assumptions and financial information provided through the year.</p> <p>At the third quarter stage of 2014/15, the Council's reserves strategy remains effective with a small forecast underspend of £0.2m (0.1%) against a budget of £253.8m. Portfolio Holders and the Corporate Leadership Board continue to focus on managing this position to avoid any impact on the Council's general reserves at year end.</p>

# Going Concern Considerations

Question	Management response
<p><b>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on the going concern?</b></p>	<p>Yes, the Councils Three Year Plan and reports to Cabinet throughout the year set out the implications of statutory or policy changes. All reports to Cabinet contain a section on Financial Implications authorised by the Section 151 Officer</p>
<p><b>Have there been any significant issues raised with the Audit and Governance 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).</b></p>	<p>No significant issues have been reported to date in 2014/15 which would cast doubt on the assumptions made. The Audit and Governance Committee receives regular reports from internal and external audit throughout the year and will receive the Statement of Accounts and the Annual Governance Statement for approval in September 2015</p>
<p><b>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?</b></p>	<p>Financial information on revenue and capital expenditure is reported to managers via a suite of financial reports on a monthly basis. Performance on treasury management is reported monthly to the Finance Portfolio Holder and Senior Managers and quarterly to Cabinet through the Financial Performance Report. The Council receives quarterly performance monitoring reports from all its ASDVs</p> <p>No adverse financial indicators have been identified.</p> <p>The process for reporting performance on the payment of invoices is incorporated into the contract with Co-Socius and these indicators are monitored through monthly performance reports.</p>



# Going Concern Considerations

Question	Management response
<p data-bbox="68 341 629 511"><b>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?</b></p> <p data-bbox="68 551 559 611"><b>If not, what action is being taken to obtain those skills?</b></p>	<p data-bbox="669 348 1846 379">Corporate Risk 3 addressed Strategic Leadership and Management and was described as:</p> <p data-bbox="762 394 1929 529"><i>Risk that a number of interlinked change factors result in ineffective strategic leadership and management arrangements in place meaning there is no clear and consistent understanding of our business for staff, members and partners. This reduces our ability to achieve all of our priorities, objectives and outcomes.</i></p> <p data-bbox="762 544 1052 575"><i>These factors include:</i></p> <ul data-bbox="762 589 1460 758" style="list-style-type: none"><li data-bbox="762 589 1377 621">• <i>new strategic commissioning operating model</i></li><li data-bbox="762 635 1104 666">• <i>management restructure</i></li><li data-bbox="762 681 1292 712">• <i>new and incoming senior appointments</i></li><li data-bbox="762 726 1460 758">• <i>scale of delivery on substantial change programmes</i></li></ul> <p data-bbox="669 805 1912 905">In March 2014 the Audit and Governance Committee was informed that this risk was recognised as a dying risk, the net score had reduced to 4 low risk and that it was to be removed from the corporate risk register.</p>

# Accounting Estimates

## Issue

### Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This 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 to 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 are using as part of their 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
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

# Consideration of accounting estimates

Question	Management response
<b>Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?</b>	<p>Yes, as part of the Closure of Accounts process, a review is undertaken to identify accounting estimates that require significant judgement and the note is updated accordingly.</p> <p>Discussions take place with Directors/Head of Service as part of budget monitoring and outturn meetings, and will be agreed with management prior to inclusion in the accounts.</p>
<b>Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?</b>	<p>Yes, further details are provided in the table on Accounting Estimates.</p>
<b>How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?</b>	<p>Any amendments to the accounting estimates are reported and approved by the Audit &amp; Governance Committee prior to inclusion in the Statement of Accounts.</p> <p>Members of the Committee also receive training prior to approving the Statement of Accounts so any issues and queries on the accounting estimates can be raised.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: Related party disclosures. The Code identified the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries)
- Associates
- Joint ventures in which the authority is a venturer
- 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
- Post –employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the authority and the related party.

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
<b>What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?</b>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"><li>• Annual return from senior managers and members stating details of any known related party interests.</li><li>• Review of minutes of decision making meetings to identify any member declarations and therefore related parties.</li><li>• Finance staff review information collated in each service to identify potential related parties.</li><li>• Review of in-year income and expenditure transactions with known identified related parties from prior year information.</li></ul>

# 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 and equipment valuations	Based on Fair Value – dependent on the class of assets will determine EUV, MV or DRC, MEA	A 3 stage QA process with Deloitte, Assets and finally Finance , quality assuring and challenging the valuations	Deloitte have been appointed on a 5 year contract	When completing the valuation process and in line with the RICs and CIPFA standards all valuations are considered on number of basis before a decision is made to take a particular one.	No
Estimated remaining useful lives of PPE	For Buildings and Land Deloitte use Building Surveyor information to determine a useful life. With all other PPE valued at cost the service user determines the useful life of an asset.	Part of the challenge process above particularly if a life has significantly increased or decreased. For other PPE ensure they are in line with our accounting policies.	Yes for Buildings and Land	The valuers and service users provide the estimate for the remaining useful life	No
Depreciation and amortisation	Straight line method	In line with CIPFA accounting standards and the Council's accounting policies	No	No	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?
Non-adjusting events – events after the BS date	A review is completed at year end requesting information from Corporate Mgt Team, Heads of Services and Finance.	Peer review to check all non-adjusting events have been captured.	No	None	No
Impairments	Conduct an impairment review annually, review helpdesk queries to establish whether any buildings have suffered an impairment and confirm whether the repairs have been remediated.	Quality Assurance from Valuation Team in conjunction with Facilities Management officers	Yes- in house valuation team	The same process as with a valuation – if an impairment has occurred Deloitte would be required to give a valuation based on the reason for the impairment of the asset	No
Overhead Allocation	A model has been derived to identify cost drivers and appropriate methodology for each type of overhead.	In accordance with CIPFA Guidance to establish Total Cost of Service.	No	Apportionment bases are reviewed each year to ensure that they remain appropriate and equitable.	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?
Bad Debt provision	A review of balances is carried out annually and an impairment provision for doubtful debts is made in accordance with the accounting policy.	In accordance with the accounting policy.	No	Calculation takes into account historical experience, current trends and other relevant factors.	No
Measurement of Financial Instruments - Market LOBO loans	Market LOBO loans – fair values based on discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate and adding the value of the embedded options.	Part of established year end plan for dealing with financial instrument valuations.	Yes – Arlingclose Ltd	Does not give rise to any material differences in the accounts – expertise of company with access to market information used, no alternatives considered	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?
Measurement of Financial Instruments - PWLB loans	PWLB loans – fair values based on information provided by PWLB Investments held in CD's – market value based on an equivalent CD from the same issuer with similar maturity characteristics available on or close to 31st March.	Part of established year end plan for dealing with financial instrument valuations.	Yes – Arlingclose Ltd	Does not give rise to any material differences in the accounts – expertise of company with access to market information used, no alternatives considered	No
Measurement of Financial Instruments - Investments	Investments - fair values based on equivalent loans from (where possible) the same borrowers based on the outstanding maturity period of each loan.	Part of established year end plan for dealing with financial instrument valuations.	Yes – Arlingclose Ltd	Does not give rise to any material differences in the accounts – expertise of company with access to market information used, no alternatives considered	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?
Provision for liabilities	Contingent liabilities: identified as part of Lead Review referred to above.  Pensions: Actuarial Report	In accordance with CIPFA guidance.	No  Yes: Hymans	None	No
Investments in companies valuations	Estimates are based on the use of accepted valuation models. These are prepared by the Council based on the audited financial statements of the companies. Alderley Park Holdings Ltd Manchester Science Parks Ltd	These will be based on the audited financial statements and reviewed by the corporate finance team..	When necessary external advice will be sought.	None	No
Accruals	Auto Accruals Process  Commitment Accounting Reports	In accordance with the Council's accounting policies and controlled through the budget monitoring process.	No	None	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?
Long term obligations under PFI schemes	The Council has assessed these arrangements under IFRIC 12 – recognizing the assets used to deliver the services on the Council’s balance sheet along with a corresponding liability.	The model developed by Grant Thornton is used to calculate the relevant accounting entries.	Deloitte have been appointed to revalue the buildings.	The initial recognition of the asset/liability is based on costs within the operator’s financial model and the embedded finance lease repayments are estimated by deducting service and lifecycle costs from the Unitary Charge.	No



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