

Informing the audit risk assessment for Cheshire East Council

Year ended 31 March 2017

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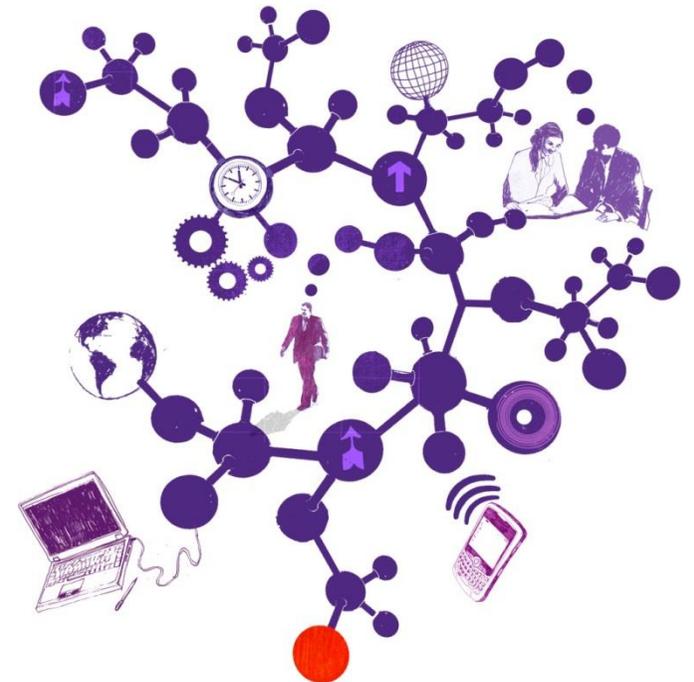
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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 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?

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

Countering Fraud and Corruption: 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, particularly in a time of financial austerity, 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 ongoing review in accordance with the Council's Risk Management Strategy. The fraud risk was last formally reviewed in November 2016 when, following the identification and assessment of mitigating controls, the net risk was scored as medium.

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

In addition to the strategic risk identified above, a detailed Fraud and Bribery Risk Assessment is in place in order to identify service specific risks to which the Council may be vulnerable.

This assessment was initially produced by 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 and appropriate controls put in place to mitigate them.

The outcome of this risk assessment has been used to inform proactive counter fraud work by Internal Audit

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

The Internal Audit Plan for 2016/17 included proactive reviews to seek assurance as to the effectiveness of mitigating controls in place to manage the risk of fraud in areas identified as at risk in the risk assessment discussed in the response above.

Further proactive reviews will be included within the 2017/18 Internal Audit Plan and the risk assessment will also be subject to review and update where appropriate

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?

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 Team with the collection of evidence for, and the drafting of it being the responsibility of the Corporate Assurance Group (CAG). 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 2016 meeting.

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 2016/17, a draft statement and action plan will be presented to the Audit and Governance Committee in June 2017 along with Internal Audit's Annual Report, and the final version will be presented to the August 2017 meeting of the Committee. These are earlier deadlines than in previous years as a "dummy run" to ensure that the Council are able to comply with the forthcoming earlier deadlines required by legislative changes.

Internal Audit work also provides assurance as to the effectiveness of internal controls and, where weaknesses are identified, mitigating actions are recommended to managers. Internal Audit follows up on the implementation of agreed recommendations to provide further assurance that improvements in the control environment have been made.

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 2017 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 2016/17.

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)?

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 Finance Partnering & Accountancy Manager using the same financial system and operating under the same control environment as in house service areas.

The Finance Partnering & Accountancy team is structured to provide specific support and guidance to the ASDV's. Accountants provide regular reports to the Company Boards. The client finance role is undertaken by a Principal Accountant (Neil Taylor). Finance Partnering & Accountancy Services and Financial Strategy & Reporting undertake a range of services which are 'bought back' by the ASDV's for an agreed rate. The financial package is designed to maintain financial robustness and meet statutory reporting requirements.

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?

Audit and Governance Committee receive regular Risk Management Update reports which provide information relating to the Corporate Risk Register. The latest, received in December 2016, provided an update on the status of risks included within the Corporate Risk register, including the fraud risk. A further report is being taken to the March 2017 meeting of the Audit and Governance Committee.

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. 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 2016 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.
- March 2016 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. An updated Anti Fraud and Corruption Policy was also be presented to Members for approval and adoption.

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.

Fraud risk assessment continued

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

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 Policy 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 2013 and again 2015 and is subject to annual review, and update, where necessary. A revised code was approved and adopted in January 2017 to ensure compliance with the CIPFA/Solace "Delivering Good Governance in Local Government – Framework" (2016 Edition).

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 A of the Council's Code of Corporate Governance is concerned with – "Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law" and sets out the supporting principles, behaviours and actions that demonstrate good governance and how this is evidenced in practice at Cheshire East Council.

Fraud risk assessment continued

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

The Council's Anti Fraud and Corruption Policy states that each Member and officer of the Council is under a duty to report any reasonable suspicions and is encouraged to raise any concerns they may have in the knowledge that such concerns will be properly investigated. To this end, the Council has a Whistleblowing Policy to protect anyone who wishes to raise concerns about behaviour or practice.

The Whistleblowing Policy is intended to cover major concerns that fall outside the scope of other procedures. These include:

- criminal offences
- failure to comply with legal obligations
- miscarriages of justice
- dangers to health or safety, including risks to the public as well as other employees
- damage to the environment
- the unauthorised use of public funds
- possible fraud and corruption
- sexual or physical abuse of clients
- other unethical conduct, or
- deliberate concealment of any of the above categories

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

- The Chief Executive,
- Director of Legal Services, who is also the Monitoring Officer
- Corporate Manager Governance and Audit.

The Council also has in place an online reporting form and a Whistleblowing email address. 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 is reviewed and, if appropriate, updated on an annual basis. The policy was last updated in June 2016 with the latest review reported to Audit & Governance Committee in June 2016.

Fraud risk assessment continued

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

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.

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 2016?

None which have a material impact on the financial statements.

Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2016? If so how does the Audit and Governance Committee respond to these?

No reports have been made under the Bribery Act since 1 April 2016. Various whistleblowing reports have been received through the year but none which would have a material impact upon the financial statements. There were, however, a number of referrals during 2015/16 relating to the award of contracts and the use of waiver procedures that, whilst not material to the financial statements, attracted a great deal of public interest. These were shared with the External Auditor who agreed with the Council's response to them. These issues have subsequently resulted in a police investigation that remains ongoing.

Audit and Governance Committee last received a report detailing whistleblowing activity in June 2016 with the next update scheduled for the June 2017 meeting

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 in the following pages together with responses from management.

Impact of Laws and regulations

Question	Management response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The 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"> • co-ordination of functions, staff and management matters – the Head of Paid Service • financial administration, probity and propriety – the Section 151 Officer • legality and administration – Monitoring Officer
<p>How do management gain assurance that all relevant laws and regulations have been complied with?</p>	<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>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016 with an on-going impact on the 2016/17 financial statements?</p>	<p>No instances of non-compliance are known to exist that will have an ongoing impact on the 2016/17 financial statements.</p>
<p>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</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 Director of Legal Services and the Finance Partnering & Accountancy 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 was undertaken. The results have been factored into the Council's assessment of the level of its self-insurance and the procurement of external insurance.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Legal Services have confirmed that they are not aware of any actual or potential litigation/claims that would have a material impact on the financial statements.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>There have been no reports from HMRC which indicate non-compliance. An outstanding issue with the treatment of VAT in Orbitas has now been resolved.</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>Does the Council have procedures in place to assess the Council's ability to continue as a going concern?</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"> • The Councils Medium Term Financial Strategy 2016/19 and Treasury Management Strategy were approved by Council on 25 February 2016. • 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. • 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 2017. This predicted a small overspend of £1.7m against budget. • Financial Resilience is identified as a key risk in the Corporate Risk Register: <ul style="list-style-type: none"> Financial Resilience: <i>The reduction in funding from Central Government means the Council projects significant funding gaps over the next four years, there is a possibility that the Council does not adapt its financial plans in sufficient detail quickly enough, either by deferring the difficult decisions about services, using over-optimistic planning assumptions, or not rethinking sources of income. This may result in difficulties in closing and managing the budget gaps, financial stress and may impede the Council's ability to meet its statutory requirements, and deliver all of its intended outcomes and objectives in full.</i> • 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. • All wholly owned companies benefit from a number of guarantees put in place by the authority. Their payments to the Cheshire Pension Fund (based on defined contributions towards current service costs) are guaranteed by the Council, and the Council retains responsibility for past service deficits and accounting for pensions assets and liabilities. 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.

Going Concern Considerations

Question	Management response
<p>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?</p>	<p>There are no events or conditions which would impact on the Councils status as a going concern.</p> <p>The financial stability of the Council, which determines the amount of money available for service expenditure, should be exposed to less risk from further Government funding shortfalls in the medium term. This has been strengthened by the submission to DCLG of the 4 Year Efficiency Plan in October 2016. This confirmed the Council's acceptance of the 2016/17 Finance Settlement funding levels which are now guaranteed up to the end of 2019/20. These were reconfirmed in the Provisional Finance Settlement released on 15th December 2016.</p>
<p>Are arrangements in place to report the going concern assessment to the Audit and Governance Committee?</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>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?</p>	<p>The Council has set a balanced budget for 2017/18 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 2016/17, the Council's reserves strategy remains effective with a small forecast overspend of £1.7m (0.7%) against a budget of £247.9m. Portfolio Holders and the Management Group 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>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on the going concern?</p>	<p>Yes, the Councils Corporate 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. The Corporate Plan has recently been updated for 2017- 20 and reported to Cabinet / Council in February 2017.</p>
<p>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).</p>	<p>No significant issues have been reported to date in 2016/17 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 on the earlier deadline of August 2017.</p>
<p>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?</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 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>

Going Concern Considerations

Question	Management response
<p data-bbox="68 344 629 511">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?</p> <p data-bbox="68 554 561 615">If not, what action is being taken to obtain those skills?</p>	<p data-bbox="671 348 1897 415">Following a restructure in 2016/17 the Council has established the three directorates of People, Place and Corporate.</p> <p data-bbox="671 454 1877 486">The Council has a strong corporate leadership team in place with the following Chief Officers:</p> <p data-bbox="671 491 1073 519">Mike Suarez – Chief Executive</p> <p data-bbox="671 524 1763 552">Kath O'Dwyer – Executive Director of Peoples Services and Deputy Chief Executive</p> <p data-bbox="671 556 1348 585">Peter Bates – Chief Operating Officer (S151 Officer)</p> <p data-bbox="671 589 1230 618">Frank Jordan - Executive Director of Place</p> <p data-bbox="671 662 1893 762">Other statutory posts include Mark Palethorpe (Strategic Director of Adult Social Care and Health), Bill Norman (Director of Legal Services and Monitoring Officer) and Charlotte Simpson and Guy Kilminster (Acting Director of Public Health).</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
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?	<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>
Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	<p>Yes, further details are provided in the table on Accounting Estimates.</p>
How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?	<p>Any amendments to the accounting estimates are reported and approved by the Audit & 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
What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none">• Annual return from senior managers and members stating details of any known related party interests.• Review of minutes of decision making meetings to identify any member declarations and therefore related parties.• Finance staff review information collated in each service to identify potential related parties.• Review of in-year income and expenditure transactions with known identified related parties from prior year information.

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 Current or Fair Value – dependent on the class of assets will determine EUV, MV or DRC, MEA	A 3 stage QA process with Deloitte's, Assets and finally Finance , quality assuring and challenging the valuations	Deloitte's 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's 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 Code, accounting standards and the Council's accounting policies	No (except where used to determine asset life)	The length of the life is determined at the point of acquisition or revaluation.	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's would be required to give a valuation based on the reason for the impairment of the asset	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?
Pension liability	The Council is an admitted body to the Cheshire Local Government Pension Scheme. The administering authority (Cheshire West and Chester Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary - Hymans	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
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

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?
Impairment of receivables (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
Accruals	Auto Accruals Process and Commitment Accounting Reports used to identify expenditure incurred	In accordance with the Council's accounting policies and controlled through the budget monitoring process.	No	None	No
Provision and contingent liabilities	Identified from discussions with management to identify obligations. 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.	In accordance with CIPFA guidance and accounting standards	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?
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 and include: 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
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

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
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



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