



Borough of Tamworth

Marmion House,  
Lichfield Street, Tamworth,  
Staffordshire B79 7BZ.

Enquiries: 01827 709 709  
Facsimile: 01827 709 271

## AUDIT AND GOVERNANCE COMMITTEE

23 March 2016

Dear Councillor

A meeting of the Audit and Governance Committee will be held in **Committee Room 1 - Marmion House on Thursday, 31st March, 2016 at 6.00 pm**. Members of the Committee are requested to attend.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A. G. ...', written over a circular stamp.

### A G E N D A

#### NON CONFIDENTIAL

- 4 The Audit Plan** (Pages 1 - 48)  
(Report of Grant Thornton) (External Auditor)

*People who have a disability and who would like to attend the meeting should contact Democratic Services on 01827 709264 or e-mail [committees@tamworth.gov.uk](mailto:committees@tamworth.gov.uk) preferably 24 hours prior to the meeting. We can then endeavour to ensure that any particular requirements you may have are catered for.*

To Councillors: J Chesworth, J Oates, J Faulkner, J Goodall, S Goodall, K Norchi and  
T People

# The Audit Plan for Tamworth Borough Council

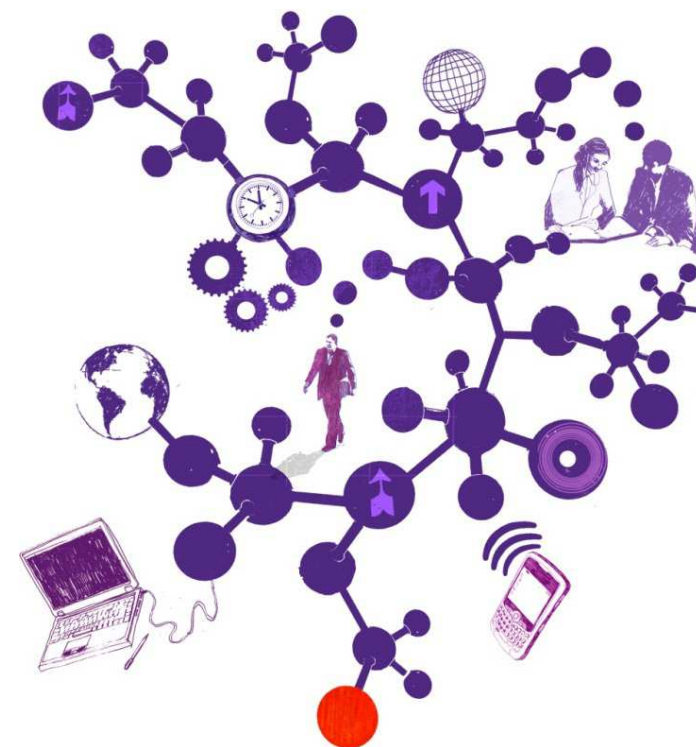
Year ending 31 March 2016

31 March 2016

John Gregory  
Director and Engagement Lead  
T 0121 232 5333  
E [john.gregory@uk.gt.com](mailto:john.gregory@uk.gt.com)

Joan Barnett  
Engagement Manager  
T 0121 232 5399  
E [joan.m.barnett@uk.gt.com](mailto:joan.m.barnett@uk.gt.com)

Denise Mills  
In charge auditor  
T 0121 232 5306  
E [denise.f.mills@uk.gt.com](mailto:denise.f.mills@uk.gt.com)



Agenda Item 4

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 the Council 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.

Tamworth Borough Council  
Marmion House  
Lichfield Street  
Tamworth  
Staffordshire  
B79 7BZ

Grant Thornton UK LLP  
Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT  
T +44 (0) 121 232 4000  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

31 March 2016

Dear Members of the Audit and Governance Committee

### **Audit Plan for Tamworth Borough Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Tamworth Borough Council, the Audit and Governance Committee, an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

John Gregory  
Engagement Lead

#### **Chartered Accountants**

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# Contents

## Section

Understanding your business	5
Developments and other requirements relevant to the audit	6
Our audit approach	7
Materiality	8
Significant risks identified	9
Other risks identified	11
Value for Money	14
Internal Audit Work	17
Key dates	18
Fees and independence	19
Communication of audit matters with those charged with governance	20

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- You anticipated the likely central budget reductions in advance and identified opportunities for efficiencies. General Fund closing balances as at 31 March 2019 are forecast to be £0.6m, above the minimum approved level of £0.5m. HRA balances as at 31 March 2021 are estimated at £0.8m, above the minimum approved level of £0.5m.
- You have identified the need to review the various factors, influences and information that impact on financial management and effectiveness of services. You have revised your Strategic Framework in response to the on-going challenges.

### 2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- The Council is a member of the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP); and of the Stoke-on-Trent and Staffordshire Enterprise Partnership.
- The Council is also a non-constituent member of the West Midlands Combined Authority due to be established in April 2016.

### 3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.
- You have taken account of the impact as part of your detailed considerations supporting your budget and medium term financial strategy 2016/17.

### 4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



## Our response

- We will consider the Council's plans for managing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

- We aim to complete all substantive work in our audit of your financial statements by 31 July 2016 (with exception to welfare benefits being tested in August 2016) as a 'dry run'

# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

### 3. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- You have a Joint Waste Service with Lichfield District Council.

### 4. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

## Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

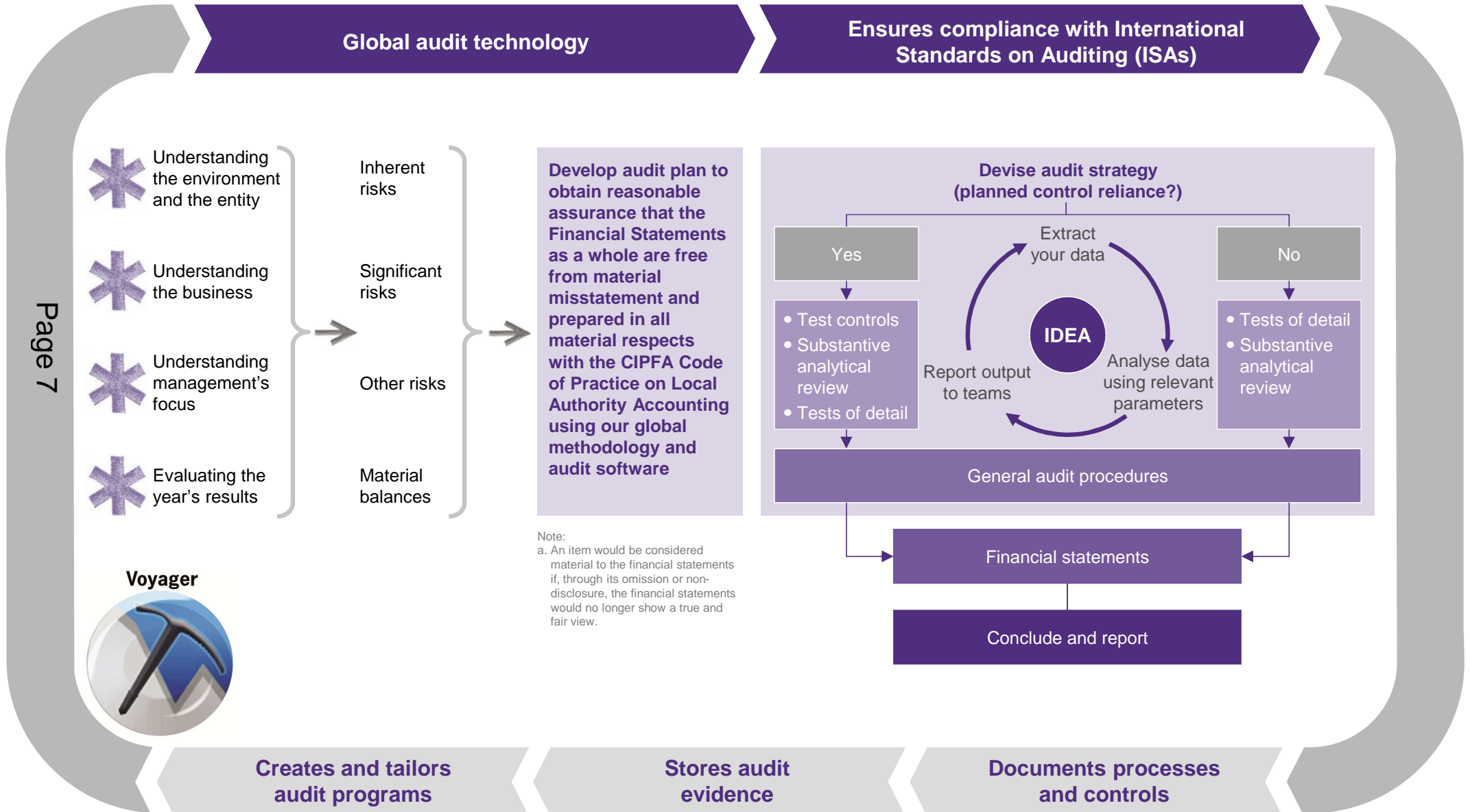
- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will review your proposals for accounting for the arrangements against the requirements of the CIPFA Code of Practice.

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd.



# Our audit approach



Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,025k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £51k.

ISA 20 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Council and the related party.

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Tamworth Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Tamworth Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

Page 9

## Significant risks identified (continued)

In addition to the presumed risks on the previous page, we have also identified the following significant risk of material misstatement specific to Tamworth Borough Council

Significant risk	Description	Substantive audit procedures
Valuation of pension fund net liability  Page 10	The pension fund asset and liability as reflected in the balance sheet represent significant estimates in the financial statements.	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Document the processes and controls in place around accounting for operating expenses</li> <li>• Walkthrough tests to confirm the operation of the controls in relation to the existence/occurrence and rights/obligations assertions</li> <li>• Cut off testing of purchase orders and goods received notes (both before and after year end)</li> <li>• Review of the year end accruals process.</li> <li>• Review of the year end control account reconciliations</li> <li>• Unrecorded liabilities testing of payments after year end</li> <li>• Test of a sample of operating expenses covering the period 1/4/15 to 31/3/16 to ensure they have been accurately accounted for</li> <li>• Test of a sample of creditor balances at 31/3/16.</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Document the processes and controls in place around accounting for employee remuneration</li> <li>• Walkthrough tests to confirm the operation of the controls in relation to the completeness assertion which we consider to present a risk of material misstatement to the financial statements</li> <li>• Test the payroll reconciliation to ensure that the payroll system could be agreed to the ledger and financial statements</li> <li>• Review of monthly trend analysis of total payroll.</li> </ul>

Page 11

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Employee remuneration (continued)	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Test a sample of employee remuneration payments covering the period 1/4/15 to 31/3/16 to ensure they have been accurately accounted for</li> <li>• Test a sample of payments made in April and May 2016 to ensure payroll expenditure is recorded in the correct year</li> <li>• Test other payroll disclosure such as officer senior officers remuneration and exit packages.</li> </ul>
Welfare expenditure	Welfare benefit expenditure improperly computed	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Document the processes and controls in place around the accounting for welfare expenditure</li> <li>• Walkthrough tests to confirm the operation of controls in relation to the Valuation assertion which we consider to present a risk of material misstatement to the financial statements</li> <li>• Test benefits system reconciliation to ensure that information from the benefits system can be agreed to the general ledger and financial statements</li> <li>• Test a sample of benefits payments to ensure accuracy – we will review the workbooks completed for the Benefits Subsidy claim</li> <li>• Carry out certain procedures in accordance with the HB COUNT methodology required to certify the housing benefit subsidy claim .</li> </ul>

Page 12

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# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Property Plant and Equipment – including sale of the golf course
- Investment Property
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Pensions note
- Collection Fund and associated notes
- Housing Revenue Account

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# Value for Money

## Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>



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# Value for Money (continued)

## Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusions and the opinions on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified a significant risk which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

*A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out overleaf the risk we have identified, how it relates to the Code sub-criteria, and the work we propose to undertake to address the risk.

Other areas we shall be focussing on as part of our consideration of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are:

- review of the Council's financial resilience, as reflected in the medium term financial strategy and savings factored into annual budgets.

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter. We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

# Value for Money (continued)

Issue and significant risk	Link to sub-criteria	Work proposed to address
<p><b>1. Working with partners and other third parties</b></p> <p>The Council has already developed working partnerships such as the Joint Waste Management service delivery with Lichfield District Council.</p> <p>The Council is a member of the Tamworth Strategic Partnership. Key local organisations from the public, private, voluntary and community sectors work together in the partnership to improve the quality of life for Tamworth communities. As part of its work the partnership commissions a number of services from other organisations.</p> <p>Governance arrangements for partnerships include a Partnership Guidance Policy and an annual review of outcomes.</p> <p><i>Risk – Cultural differences between partners may be an obstacle to realising the full benefit of collaboration.</i></p>	<p>Working with partners and other third parties</p>	<ul style="list-style-type: none"> <li>• Understand the strategy for collaboration and the overall ambition and limitations in this area.</li> <li>• Understand the governance arrangements for partnership working</li> <li>• Examine specific examples e.g. Joint Waste Management, community safety partnerships, Tamworth Strategic Partnership, Health and Wellbeing Board</li> </ul>

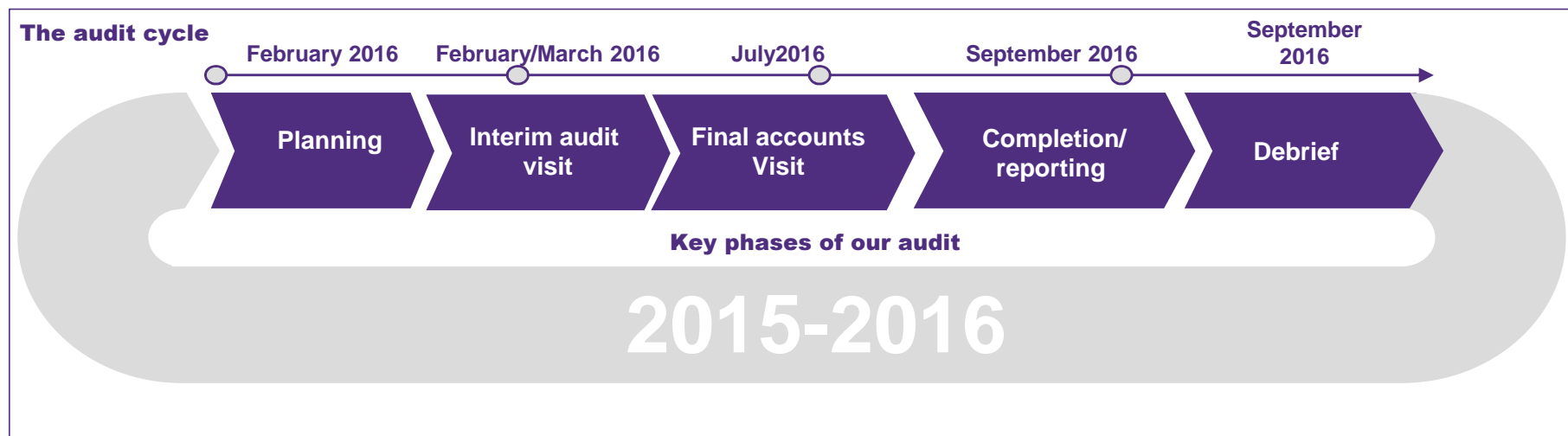
Page 16

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# Results of interim audit work

Our interim audit work is in progress at the date of writing this report. We will report the findings of our interim audit work, and the impact of our findings on the accounts audit approach in June 2016.

# Key dates



Page 18

Date	Activity
February 2016	Planning
February 2016 and March 2016	Interim site visit
31 March 2016	Presentation of audit plan to Audit and Governance Committee
July 2016	Year end fieldwork (housing benefits to be done week commencing 15 August 2016)
29 July 2016	Main Audit findings clearance meeting
2 September 2016	Audit Findings Report to be sent to officers –this will include findings from housing benefits testing
September 2016	Report audit findings to the Audit and Governance Committee
By 30 September 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	49,838
Grant certification indicative fee	11,574
<b>Total audit fees (excluding VAT)</b>	<b>61,412</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Service	Fees £
None	nil

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<https://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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# Informing the audit risk assessment for Tamworth Borough Council

Year ended

31 March 2016

Page 23

**John Gregory**

Engagement Lead

T 0121 232 5333

E [john.gregory@uk.gt.com](mailto:john.gregory@uk.gt.com)

**Joan Barnett**

Manager

T 0121 232 5399

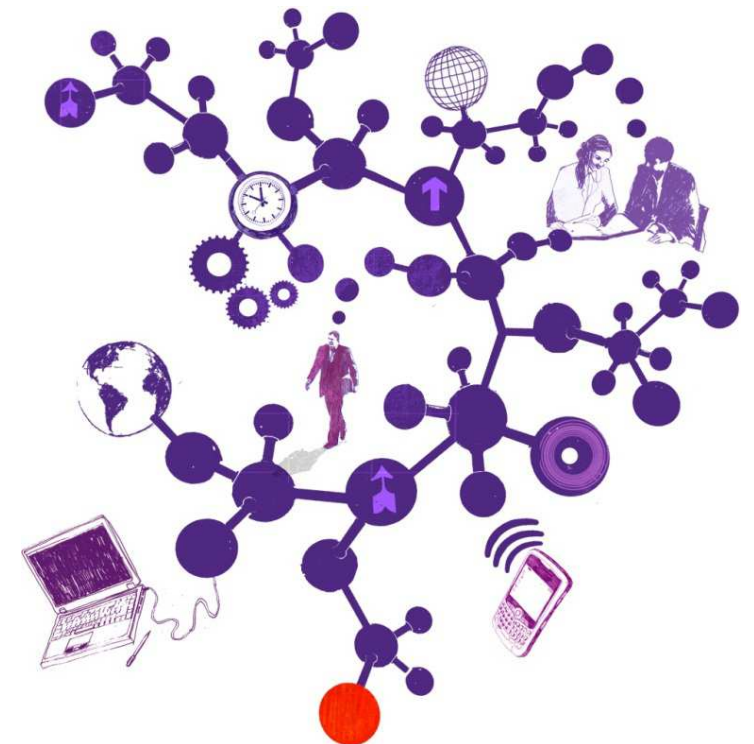
E [joan.m.barnett@uk.gt.com](mailto:joan.m.barnett@uk.gt.com)

**Denise Mills**

In-Charge Auditor

T 0121 232 5306

E [denise.f.mills@uk.gt.com](mailto:denise.f.mills@uk.gt.com)



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# Contents

<b>Section</b>	<b>Page</b>
Purpose	4
Fraud	5
Fraud Risk Assessment	6 - 11
Laws and Regulations	12
Impact of Laws and regulations	13-14
Going Concern	15
Going Concern Considerations	16 – 17
Related Parties	18-19
Accounting Estimates	20
Appendix A Accounting Estimates	21 - 25

# Purpose

The purpose of this report is to contribute towards the effective two-way communication between external auditors and the Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

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

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Governance Committee's oversight of the following areas:

- Fraud
- Laws and regulations
- Going concern.
- Related Parties
- Accounting estimates

This report includes a series of questions on each of these areas and the responses 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 an 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

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error?</p> <p>What are the results of this process?</p>	<p><i>Management receive the following reports which have informed the Council that the risk of misstatement due to fraud or error is low:</i></p> <ul style="list-style-type: none"> <li>• <i>Internal Audit's risk assessment arising from the reviews to inform the Annual Governance Statement.</i></li> <li>• <i>Quarterly reports are received from the Head of Internal Audit Services (HIAS) on systems reviewed (including the key / core financial systems) within the quarter. High risk areas are identified. Follow-up of implementation of control risks are undertaken in a timely manner. HIAS gives an opinion on the system of internal control given quarterly.</i></li> <li>• <i>An Annual Governance Statement. Assurance gathering process involves assessing against the objectives, manager's providing assurance statements and identifying key control issues affecting their operational processes;</i></li> <li>• <i>External Audit Reports, including the assessment of controls as stated in the Annual Audit &amp; Inspection Letter inform the conclusion on adequacy of the internal control process.</i></li> <li>• <i>Financial Accounts reports / reviews identifying key areas of activity and where appropriate risk implications and variance analysis. This includes the review of draft accounts / analytical review ( S151 &amp; Deputy S151) and appropriate working papers where necessary.</i></li> <li>• <i>The final account planning &amp; compliance process gives assurance on the key accounting and review processes undertaken in the planned delivery of the final accounts. Copy of implementation plan agreed &amp; monitored by members. The Final Account Delivery Plan (key actions, deliveries, implications &amp; deadlines) identifies key deliverables and issues arising from the preparation process which are reported to CMT &amp; Members.</i></li> <li>• <i>Copy of Final Account documents (including previous year comparators). Material issues / explanations are reported to Audit &amp; Governance Committee.</i></li> <li>• <i>Advice / information on changes in Accounting Policy that impact on the financial statements (including issues affecting comparator variances).</i></li> </ul>

# Fraud risk assessment

Question	Management response
Continued...	<ul style="list-style-type: none"> <li>• <i>Compliance reviews are undertaken to the accounting code of practice (IFRS).</i></li> <li>• <i>External Audit report to the Audit &amp; Governance Committee on their reliance placed on the work of Internal Audit. This therefore increases reliance on the standard and quality of audit reports and their review of control systems.</i></li> </ul>
<p>How are the Audit and Governance Committee satisfied that the overall control environment is robust. In particular what processes does the Council have in place to identify and respond to risks of fraud in the organisation?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 29</p>	<p><i>The Audit and Governance Committee receives various reports that satisfy them that the control environment is robust.</i></p> <ul style="list-style-type: none"> <li>• <i>Internal Audit's risk assessment arising from the reviews to inform the Annual Governance Statement.</i></li> <li>• <i>Quarterly reports are received from the Head of Internal Audit Services (HIAS) on systems reviewed (including the key / core financial systems) within the quarter. High risk areas are identified. Follow-up of implementation of control risks are undertaken in a timely manner. HIAS opinion on the system of internal control given quarterly.</i></li> <li>• <i>An Annual Governance Statement. The assurance gathering process involves assessing against the objectives, manager's providing assurance statements identifying key control issues affecting their operational processes.</i></li> <li>• <i>External Audit Reports, including the assessment of controls as stated in the Annual Audit &amp; Inspection Letter inform the conclusion on adequacy of the internal control process.</i></li> </ul> <p><i>Counter Fraud &amp; Corruption &amp; Whistleblowing policies are in place (reviewed 2015 – Audit &amp; Governance Committee 29<sup>th</sup> October 2015)</i></p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	<p><i>Internal Audit maintain a fraud risk register which is updated quarterly. We are aware of areas where risk of fraud has increased (e.g. changes to creditor bank details). Staff working in this area are aware of the increased risk and an E-learning solution is to be rolled out once finalised. There are not many areas where cash is handled; this happens only at the castle or the Tourist Information Centre and no concerns have been highlighted by work undertaken there.</i></p>

## Fraud risk assessment (continued)

Question	Management response
<p>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?</p>	<p><i>Yes: the internal controls listed below are in place and operating effectively:</i></p> <ul style="list-style-type: none"> <li>• <i>Financial guidance in place and regularly reviewed/monitored</i></li> <li>• <i>Counter Fraud &amp; Corruption &amp; Whistleblowing policies in place (reviewed 2015)</i></li> <li>• <i>System access control at local level</i></li> <li>• <i>Monthly financial monitoring &amp; review and exception reporting</i></li> <li>• <i>NFI &amp; NAFN reviews including payments monitoring</i></li> <li>• <i>Review of higher value journals</i></li> <li>• <i>Segregation of duties / 2 person authorisation requirements (to deter fraud / collusion)</i></li> <li>• <i>Effective Internal Audit function reviewing key controls</i></li> <li>• <i>Internal controls within Services</i></li> <li>• <i>Self assessments are carried out to identify potential weaknesses</i></li> <li>• <i>Procurement Strategy approved by Cabinet June 2013, including roll out of quick quote process for procurement &amp; training for key officers.</i></li> </ul>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p><i>Management is not aware of any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process. The following sources would be used to inform the organisation of any such instances</i></p> <ul style="list-style-type: none"> <li>• <i>S151 Officer is informed of suspected or alleged areas of fraud from the following sources :</i> <ul style="list-style-type: none"> <li>• <i>Whistle Blowing / informants,</i></li> <li>• <i>Benefits Fraud Investigations</i></li> <li>• <i>Management – identification of irregularities</i></li> <li>• <i>Internal Audit – reports / reviews</i></li> </ul> </li> <li>• <i>Any areas of actual fraud will be / are reported to the Audit &amp; Governance Committee as part of the normal quarterly monitoring/reporting process as well as senior management and police (where appropriate);</i></li> <li>• <i>Requirement of Managers / officers / Members to report to S151 any suspicions / allegations of fraud for appropriate investigation.</i></li> </ul>



# Fraud risk assessment (continued)

Question	Management response
<p>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?</p> <p>What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p>	<p><i>Audit &amp; Governance Members (including relevant Council Officers) receive the following information / communication in order to raise / inform fraud risks and breaches of internal control</i></p> <ul style="list-style-type: none"> <li>• <i>Quarterly Fraud update provided to the Committee including NFI.</i></li> <li>• <i>Audit &amp; Governance Committees Terms Of Reference state that they will monitor the effectiveness of anti fraud &amp; corruption arrangements. This is achieved / discharged through the Audit &amp; Governance Committee approving the Counter Fraud and Corruption Strategy Policy Statement and Guidance Notes and the Whistleblowing Policy.</i></li> <li>• <i>Head of Internal Audit Services opinion on the control environment given on a quarterly basis.</i></li> <li>• <i>Pro-active annual Internal Audit plan based on "Risk Based Audit" to review key activity areas of operation</i></li> </ul>
<p>How does the Council communicate and encourage appropriate business practice and ethical behaviour of its employees and contractors?</p>	<ul style="list-style-type: none"> <li>• <i>Employees are made aware of the communication process (via NetConsent) of all key Council policies, including the Counter Fraud and Corruption Policy, Statement &amp; Strategy and Whistleblowing Policy. This is a mandatory process; compliance is reported and monitored and where appropriate additional training is given.</i></li> <li>• <i>An employee induction training process is completed which includes specific training for standards/code of conduct.</i></li> <li>• <i>Financial Guidance is reviewed and approved by Members and is available to all staff / members on intra-net (and hard copy if required);</i></li> <li>• <i>On-going awareness and dissemination of good practice etc. circulated via PinBoard, officer fraud updates, best practice and Internal Audit &amp; External Audit Reports (including risk assessment / recommendations &amp; management responses and external publications i.e. Audit Commission Circulars);</i></li> <li>• <i>Development of e-learning modules for Counter Fraud &amp; Corruption and Whistleblowing</i></li> </ul>

Page 31

## Fraud risk assessment (continued)

Question	Management response
<p>How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?</p>	<p><i>This is encouraged via Whistle-blowing Procedures and/or Counter fraud and/or Corruption policy Statements &amp; Strategy (both are available on the intranet).</i></p> <ul style="list-style-type: none"> <li>• <i>The Counter Fraud &amp; Corruption Policy Statement &amp; Strategy was notified to staff using NetConsent policy management system which requires response from staff which will be logged and followed up on the system. Staff are required to read and accept the policy and are required to report any concerns.</i></li> </ul> <p><i>We will roll out an e-learning solution, which covers counter fraud and whistleblowing, once finalised. The e-learning solution has a series of questions to confirm staff and members understanding and will be linked to the NetConsent Policy Management system to enable us to track acceptance and understanding. This will inform us of additional training requirements needed.</i></p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p><i>We are not aware of any related party relationships or transactions that could give rise to risks of fraud. The following processes are in place to ensure related party relationships are identified:</i></p> <ul style="list-style-type: none"> <li>• <i>Annual declarations of interest are required from Senior Managers and all Members of the Council to inform the related party note in the accounts.</i></li> <li>• <i>All members have to disclose any interest when making decisions.</i></li> <li>• <i>Monitoring officer keeps a register of members interests.</i></li> <li>• <i>Transparency requirements / publications &amp; public interest disclosures.</i></li> </ul>

## Fraud risk assessment (continued)

Question	Management response
<p>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 2015? If so how does the Audit and Governance Committee respond to these</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 33</p>	<p><i>No; management would be made aware of any actual or alleged instances of fraud via the following:-</i></p> <ul style="list-style-type: none"> <li>• <i>S151 Officer is informed of (and takes appropriate action in relation to) suspected or alleged areas of fraud from the following sources:</i> <ul style="list-style-type: none"> <li>• <i>Whistleblowing / informants,</i></li> <li>• <i>Benefits Fraud Investigations</i></li> <li>• <i>Management identification of irregularities</i></li> <li>• <i>Internal Audit reports / reviews</i></li> </ul> </li> <li>• <i>Any areas of actual fraud will be / are reported to the Audit &amp; Governance Committee as part of the normal annual report as well senior management and police (where appropriate);</i></li> <li>• <i>Requirement of Managers / Officers / Members to report to S151 any suspicions / allegations of fraud for appropriate investigation.</i></li> </ul>
<p>Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2015? If so how does the Audit and Governance Committee respond to these</p>	<p><i>No.</i></p>

# 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 an 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
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<ul style="list-style-type: none"> <li>• <i>Quarterly reports are received from the HIAS on systems reviewed. High risk areas are identified.</i></li> <li>• <i>The Annual Governance Statement assurance gathering process involves assessing against the objectives and managers providing assurance statements.</i></li> <li>• <i>The Monitoring Officer's independent reporting on relevant compliance with laws. The Monitoring Officer also attends the Audit and Governance Committee meetings and advises appropriately.</i></li> <li>• <i>The External Auditor review and assurance opinion on the financial affairs (management processes) of the Authority.</i></li> <li>• <i>For Council &amp; Cabinet reports both the Monitoring Officer and Finance Officer are required (subject to options) to sign-off the reports prior to members approving recommendations and to identify that proposed actions comply to legislative requirements.</i></li> <li>• <i>Periodic update to Officers / Members on new legislative requirements.</i></li> <li>• <i>Regular update by the External Auditor on potential compliance issues / understanding.</i></li> <li>• <i>Undertaking NFI Anti Fraud initiatives indicates potential fraudulent violations.</i></li> <li>• <i>Pro-active Internal Audit Plan focused on provision of assurance reports on status of management control processes.</i></li> <li>• <i>Regular review and update of Financial Guidance and Counter Fraud Policies.</i></li> </ul>
<p>How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p><i>The Monitoring Officer's independent reporting on relevant compliance with laws. The Monitoring Officer also attends the Audit and Governance Committee meetings and advises appropriately.</i></p>

# Impact of Laws and regulations

Question	Management response
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015 with an on-going impact on the 2015/16 financial statements?	No.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<i>Once identified, all claims are considered for their impact on the accounts, with appropriate action taken (e.g. reserve, provision, contingent liability etc.)</i>
Are there any actual or potential litigation or claims that would affect the 2015/16 financial statements?	No.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

# Going Concern

## Issue

### Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial position and is good practice. A key consideration of going concern is that the Council has cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

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

# Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<i>The Executive Director Corporate Services (as s151 Officer) is satisfied that the budget and Medium Term Financial strategy (MTFS) proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy reviewed by all Members and approved by Council in February 2016.</i>
Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No.
Are arrangements in place to report the going concern assessment to the Audit and Governance Committee? How has the Audit and Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	<i>The Executive Director Corporate Services (as s151 Officer) is satisfied that the budget and MTFS proposals are based on robust estimates, and that the level of reserves is adequate. This was reported in the Medium Term Financial Strategy. This was reported in the Medium Term Financial Strategy reviewed by all Members and approved by Council in February 2016.</i>
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?	<i>The Financial Plan (MTFS) is agreed at the same time as the Corporate Plan. The financial plan makes clear reference to the Corporate Plan as the basis for the financial considerations in setting the medium term budget. The financial assumptions are therefore consistent with the Council Plan. Reports in year are consistent with the budget set.</i>



## Going Concern Considerations (continued)

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p><i>The financial plan considered explicitly the government changes in terms of grants. The plan sets out the likely implications of the Governments Resources Review (including welfare benefit reform and localisation of council tax support and business rates) and other changes to local government finance. Policy changes are detailed within the report. Sensitivity analysis for grant and other income and expenditure included.</i></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.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?</p>	<p>No.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p><i>Yes; PDR process and person specifications include assessment of relevant skills. Capacity issues are raised and discussed on a regular basis including in risk assessments e.g. dealing with benefits claims</i></p>

# Related Parties

## Issue

### Matters in relation to Related Parties

Council's are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

Disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&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 party considerations have been set out below and management has provided its response.

## Related Parties (Continued)

Question	Management response
<p>What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?</p>	<p><i>A number of arrangements are in place for identifying the nature of a related party and reported value including:</i></p> <ul style="list-style-type: none"> <li>• <i>Maintenance of a Register of interests for Members and a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</i></li> <li>• <i>Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and that they state the details of any known related party interests.</i></li> <li>• <i>Challenge from public</i></li> </ul>
<p>Who have the Council identified as related parties?</p>	<p><i>The Council discloses its related parties under the following headings:</i></p> <ul style="list-style-type: none"> <li>• <i>Government. Central government has controlling influence over the Council as the Council needs to act in accordance with its statutory responsibilities.</i></li> <li>• <i>Precepts &amp; Levies. These parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. The Council is bound to pay the amount demanded from these parties through precept or levy.</i></li> <li>• <i>Joint Operations / Ventures. The Council has the potential to influence the other parties through a joint relationship.</i></li> <li>• <i>Assisted Organisations. The provision of financial assistance by the Council to such parties or voluntary organisations may give the Council influence on how the funds are to be administered and applied.</i></li> </ul>

# 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. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the Council is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates considerations have been set out below and management has provided its response.

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?	<i>Yes; see appendix A for detailed breakdown</i>
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate?	<i>The significant accounting estimates are reported, as part of this report and included within the notes to the accounts, to Audit &amp; Governance Committee. This includes an explanation of the underlying assumptions and likely impact of any variances. External Audit also provide assurance as part of the annual audit / review process.</i>

# Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations.	Valuations are made by the internal valuer (local RICS Member) in line with RICS guidance on the basis of 5 year valuations with interim reviews for significant assets and asset classes.	Chief Accountant notifies the valuer of the programme of rolling valuations or any conditions that warrant an interim re-valuation.	Use the Internal local RICS Member. Use of External valuer (Housing stock). ICT Acquisitions. Heritage Assets valuations. Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance (reliance on expert).  ICT: purchases at cost  Heritage Assets: Use of valuation (inflated) or cost	No
Estimated remaining useful lives of PPE.	The following asset categories have general asset lives: <ul style="list-style-type: none"> <li>• Housing stock 50 years</li> <li>• Other Buildings 5 to 100 years</li> <li>• Vehicles, plant &amp; equipment 1 to 20 years</li> <li>• Community 100 years</li> <li>• ICT Equipment 3 years</li> <li>• Infrastructure 30 years.</li> </ul>	Chief Accountant discusses with the valuer	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS Member.	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?
Depreciation & Amortisation.	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	The length of the life is determined at the point of acquisition or revaluation according to: <ul style="list-style-type: none"> <li>Assets acquired in year are depreciated on the basis of a charge from acquisition date.</li> <li>Assets that are not fully constructed are not depreciated until they are brought into use.</li> </ul>	No.
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	Assets are assessed in year (e.g. garage sites) and at each year-end as to whether there is any indication that an asset may be impaired.	Use the Internal local RICS Member for non-housing valuations. Use of External valuer (Housing stock). Cipfa Asset Manager System.	Valuations are made in-line with RICS guidance - reliance on expert.	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 Balance Sheet date	S151 Officer makes the assessment. If the event is indicative of conditions. that arose after the balance sheet date then this is an non-adjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect	Heads of Service notify the S151 Officer	This would be considered on individual circumstances. Discussions with Capita/ External auditor	This would be considered on individual circumstances.	N/A
Overhead allocation.	The Finance Team apportion central support costs to services based on fixed bases as detailed in the 'Allocation Summary' spread sheet.	All support service cost centres are allocated according to the agreed 'Allocation Summary' spread sheet.	No	Apportionment bases are reviewed each year to ensure equitable	No
Measurement of Financial Instruments.	Council values financial instruments at fair value based on the advice of their external treasury consultants and other finance professionals.	Take advice from finance professionals.	Yes; Capita/PWLB	Take advice from finance professionals.	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?
Provisions for liabilities.	<p>Provisions are made where an event has taken place that</p> <ul style="list-style-type: none"> <li>gives the Council a legal or constructive obligation</li> <li>that probably requires settlement by a transfer of economic benefits or service potential, and</li> <li>a reliable estimate can be made of the amount of the obligation.</li> </ul> <p>Provisions are charged as an expense to the appropriate service line in the CI&amp;ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.</p>	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No



# 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 provision is estimated using a proportion basis of an aged debt listing.	Revenues provide the aged debt listing and Finance calculate the provision.	No	Consistent proportion used across aged debt as per the Code. Business Rates: each case (limited number) assessed to determine estimated recoverable amount	No
Accruals	Finance collate accruals of Expenditure and Income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Pension liability	The Council is an admitted body to the Staffordshire Local Government Pension Scheme. The administering authority (the County Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No



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