

Informing the audit risk assessment for South Staffordshire Council 2022/23

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between South Staffordshire Council's external auditors and South Staffordshire Council's Audit and Risk 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 Risk Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and Risk 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 Risk Committee and supports the Audit and Risk 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 Council's oversight of the following areas:

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

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

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>For the 2021/22 audit management reported the impact of the 20 July 2021 fire at Unit 4e, Four Ashes a commercial property owned and let by the Council.</p> <p>For that year's final accounts the impact was largely related to ensuring the damaged property was correctly valued and accounted for in accordance with IAS36, recognising that the cost of reinstatement would be largely born by application of the Council's insurance policy.</p> <p>Twelve months on, restoration work is under way. The impacts on the 2022/23 accounts shall be;</p> <ul style="list-style-type: none"> • Ensuring the Asset Under Construction is properly accounted for. • Correct recognition of interim and future payments in accordance with the Council's insurance policy in respect of Capital. • Correct recognition of payments due under the Council's insurance policy for loss of rental income further to the fire. • Recognition and adjustment in the accounts for any incurred losses (Capital or Revenue) arising as deductibles under the Council's insurance policy or through negotiation with the Insurer's loss adjustors.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23? (continued)</p>	<p>The robust Insurance Policy that the Council maintains however should ensure that there is no material detriment to the General Fund as an ongoing consequence of this event.</p> <p>In general, 2022/23 continues to present challenges to the sector and South Staffordshire is not immune. In particular inflationary pressures are impacting on the cost of services in terms of pay, contractual prices and energy costs. Earmarked Reserves created at the end of 2021/22 financial year with the express purpose protecting the General Fund against the impact of inflation have achieved the desired intention.</p> <p>The Council has a robust regime of budget monitoring and the projected outturn has shown minimal variations against Service Budgets in year. The Council has however benefitted from low interest rates to finance its Capital programme. The latter has been developed in 2022/23 with planned improvements made to its Commercial estate and jointly run Leisure Centres.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by South Staffordshire Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>The appropriateness of accounting policies are continually reviewed. They are presented on an annual basis to the Audit and Risk Committee for member approval. We are not aware of any events or transactions that may cause a change or adoption of new accounting policies.</p> <p>The correct accounting treatment of residual transactions in relation to the aforementioned fire event of 2021 may necessitate the use of codes not previously required but no new policies will be activated.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The use of financial instruments (which includes cash balances and investing) is strictly defined and adhered to through the Treasury Management Strategy. Outcomes are reported quarterly to the Audit and Risk Committee.</p> <p>All transactions are entered into with due record for risk/ reward. Financial derivatives do not make up any part of the investment portfolio or strategy.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>None</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No. Insured restorative works are being undertaken in relation to the fire damaged premises at Unit 4e. Valuations of all non-current assets will be conducted by the appointed valuers in accordance with best practices and any accounting transactions arising shall be in accordance with Accounting Standards and the Cipfa Code of Practice.
6. Are you aware of any guarantee contracts? If so, please provide further details	None
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None
8. Other than in house solicitors, can you provide details of those solicitors utilised by South Staffordshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	During the year, the Council has engaged with law firms; Geldards, Bevan Brittan, Anthony Collins Solicitors, Muckle LLP, LPC Law Limited and barristers Kings Chambers, St Ives Chambers, Pump Court Chambers, St Philips on specific matters as required. To the best knowledge of the Monitoring Officer, none have been engaged on significant open litigation or contingencies from prior years.

General Enquiries of Management

Question	Management response
9. Have any of the South Staffordshire Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>VAT advice, previously procured through PWC is now offered by KPMG. In addition to assistance of understanding our position in relation to the Ealing vs HMRC relation and any residual impact on partial exemption, advice also being sought to ensure compliance with CIS contracts and general VAT housekeeping.</p> <p>The Council also engages with</p> <p>Link Asset Services regarding Treasury advice</p> <p>Aon (Insurance Brokers) with particular reference to the July 2021 fire at Four Ashes</p> <p>LG Futures for strategic financial support, advice and benchmarking. Assistance with Collection Fund accounting.</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	<p>As at 31st March 2023, the Council does not anticipate having any material financial investments for which credit loss provisions would be required under IFRS 9.</p> <p>Aged Debtor balances are consistently appraised and appropriate levels of impairment undertaken to prudently reflect possibilities of future write off.</p>

Fraud

Matters in relation to fraud

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

As South Staffordshire Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures, we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Risk Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Risk Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Risk 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 South Staffordshire Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has South Staffordshire Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The risk of fraud being committed against the Council is assessed on an annual basis as part of the Council's planning its Audit and fraud assurance work. Arrangements are in place to both prevent and detect fraud.</p> <p>Internal review processes and key reconciliations are built into the Accounts closedown plan in addition to monthly reconciliations of key and/or vulnerable accounts.</p> <p>The risk of material misstatement of the accounts due to undetected fraud is considered to be low.</p> <p>Risk assessment and management / mitigation of risk is an integral part of financial reporting at South Staffordshire through the budget setting, monitoring and accounts closure processes.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>In line with the sector, Council Tax (discounts), benefits and contracts/procurement are significant areas of inherent risk which are mitigated through the control environment, through management and through a programme of internal audit (provided by Staffordshire County Council) and assurance work.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within South Staffordshire Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>Internal audit are concluding an investigation into a prime facie theft of cash from one of our Leisure Centre premises. Indications are that the alleged theft was opportunistic and one-off as opposed to systemic (to a value of c£300). That said, any recommendations arising to improve systems to prevent any recurrence shall be acted upon.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Corporate Leadership Team (CLT) receive a quarterly Integrated Performance Management (IPM) which enables senior management to review and evaluate key corporate risks and to take any appropriate management actions as necessary.</p> <p>For those charged with governance, the Audit and Risk Committee is the primary forum for communicating risk issues to Members.</p> <p>The Committee routinely receive copies of all internal audit reports. Any where overall Level of Assurance is assessed as 'Limited' or lower are reported as an Agenda item to Audit and Risk Committee. In these circumstances, relevant officers are required to attend and account for identified deficiencies and detail remedial actions being undertaken.</p> <p>All audit reports (irrespective of conclusion) are forwarded to the Leader of the Council. High level recommendations in any audit report (including those otherwise offering substantial levels of assurance) will be reported to the Audit and Risk Committee and followed up.</p> <p>Any investigation in relation to fraud will be reported to the Committee as a matter of course. Again any recommendations and remedial actions will be reported to the Committee.</p> <p>Staffordshire County Council report regularly on the Internal Audit plan and progress against the Plan to the Audit and Risk Committee.</p>

Fraud risk assessment

Question	Management response
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within South Staffordshire Council where fraud is more likely to occur?</p>	<p>No other specific fraud risks have been identified.</p> <p>Whilst not high value, the apparent theft at a Leisure Centre is a reminder that cash balances, from receipt to banking are exposed to an elevated risk of theft. It remains a policy of the Council to reduce as far as possible the holding of cash balances.</p> <p>The Internal Audit plan is designed to reflect and examine all areas of the Council that could potentially be exposed to the risk of fraud.</p>
<p>6. What processes do South Staffordshire Council have in place to identify and respond to risks of fraud?</p>	<p>There is a staff code of conduct and Financial Regulations. These are available for all staff to access on the Council web-site (Core). Staff are regularly reminded of these.</p> <p>There is a Counter-Fraud and Corruption Policy and Strategy and a Whistleblowing procedure in place which explains the process to follow. Staff training has been undertaken with regards to awareness of Money Laundering and Cyber Security along with reporting expectations from staff if suspicions are raised.</p> <p>Internal Audit advice is routinely sought in relation to any new areas of activity.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for South Staffordshire Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <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)? If so, please provide details</p>	<p>The overall control environment is strong. The Head of Internal Audit opinion in 2021/22 did not highlight any significant weakness and no such issues have been raised thus far in 2022/23.</p> <p>All policies and procedures for staff to comply with are documented and regularly tested by Internal Audit for both appropriateness and compliance.</p> <p>Staff regularly undergo training in respect of significant areas of interest (eg IT/Cyber Security/ Money Laundering, procurement procedures)</p> <p>There have been no weaknesses reported in relation to potential to override controls or exert undue influence on the reporting process. Budgets are monitored in a consistent, structured and open manner. The Council neither rewards nor penalises staff based on financial targets being met or missed in any given financial year.</p> <p>Since 2021/22, the structure of internal audit was amended such that Staffordshire County Council staff would both manage and deliver (previously just manage) the internal audit function within South Staffordshire. It remains the perception that this change has enhanced the robustness of the audit plan (through an increased pool of experienced and qualified staff to deliver audits) and the quality of audits completed.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No specific concerns.</p>

Fraud risk assessment

Question	Management response
<p>9. How does South Staffordshire Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>There is a staff Code of Conduct and Financial Regulations. These are available for all staff to access on the Council web-site (Core). Staff are regularly reminded of these.</p> <p>There is a Counter Fraud and Corruption Policy and Strategy and a Whistleblowing procedure in place which explains the procedures to follow. Staff training has been undertaken with regards to awareness of Money Laundering and Cyber Security along with reporting expectations from staff if suspicions are raised.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>No Council post is considered immune from the potential for fraud and all staff are expected to be fully compliant of and comply with the code of conduct and Financial Regulations. There is a hierarchy of authority to authorise expenditure/ virement commensurate with individual responsibilities ensuring appropriate governance oversight of major commitments.</p> <p>Controls around reduced single person dependencies and separation of duties are established and checked by Internal Audit around other high-risk posts, for example those involving system controls in IT or cash handling at Leisure Centres (notwithstanding any evidence of non-compliance/ recommendations arising from alleged Leisure Centre theft).</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Members and officers are required to make full disclosure of any relationships that may impact upon their roles. Members are required to declare any relevant interests at Council and Committee meetings. No fraud risk has been identified as a result of this.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Risk Committee?</p> <p>How does the Audit and Risk Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit and Risk Committee routinely receive copies of all audit reports. Any, where overall Level of Assurance is assessed as limited or lower are reported as an Agenda item to Audit and Risk Committee. In these circumstances, relevant officers are undertaken to attend and account for identified deficiencies and detail remedial actions being undertaken.</p> <p>All audit reports (irrespective of outcome) are forwarded to the Leader of the Council.</p> <p>High level recommendations in any audit report (including those otherwise offering substantial levels of assurance) will be reported to the Audit and Risk committee and followed up.</p> <p>Any investigation in relation to fraud will be reported to the Audit and Risk committee as a matter of course. Again, any recommendations and remedial actions will be reported to the Committee.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None to report</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None to report</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 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 Risk Committee, is responsible for ensuring that South Staffordshire 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 Risk Committee as to whether the body is in compliance with laws and regulations. Where we become aware 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>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does South Staffordshire Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations.</p> <p>These responsibilities cover:</p> <ul style="list-style-type: none"> • Complying with the law of the land (including any relevant Codes of Conduct) • Complying with any General Guidance issued, from time to time, by the Standards and Resources Committee and/or the advice of the monitoring officer. • Making lawful and proportionate decisions and • Not taking action that would bring the Council, their offices or professions into disrepute <p>This officer has access to all Council committee reports. Monitoring officer raises awareness on legal requirements at meetings where needed. In addition, in terms of any specific legal issues the Monitoring Officer would get involved at an early stage and formal report templates include clear reference to legal issues.</p> <p>The S151 Officer is responsible for preparing the Accounting Statements in accordance with relevant legal and regulatory requirements. We are not aware of any changes to the regulatory environment that may have an impact on the financial statements.</p> <p>The S151, Monitoring Officer and Audit Manager meet on a monthly basis.</p>
<p>2. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer attends Audit Committee meetings where appropriate and advises members on any areas of concern reports to committees include a section on legal matters, and the Audit and Risk Committee receives and approves the Annual Governance Statement.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>None known</p>

Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	No known cases
5. What arrangements does South Staffordshire Council have in place to identify, evaluate and account for litigation or claims?	<p>Our insurance policies indemnify the Council against identifiable risks wherever possible and our Insurers are informed of any potential complaints against the Council that may result in litigation at the earliest opportunity.</p> <p>Should the Council ever find itself exposed to any uninsured risks (for example over and above insured limits or excluded for any reason from the insurance policy), these would be accounted for as contingent liabilities or potentially creditors depending on the particular assessment of the potential outlay.</p>
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None received.

Related Parties

Matters in relation to Related Parties

South Staffordshire Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by South Staffordshire Council;
- associates;
- joint ventures;
- a body that has an interest in the authority 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 body that is a related party of the Council.

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

ISA (UK) 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
<p>1. Have there been any changes in the related parties including those disclosed in South Staffordshire Council's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and South Staffordshire Council whether South Staffordshire Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No changes since 2021/22</p>
<p>2. What controls does South Staffordshire Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<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"> Maintenance of a Register of Interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. Annual return from Senior Managers/ Officers requiring confirmation that they have read and understood the declaration requirements of any know related party interests (and stating details of any so declared). Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. Review of related information with subsidiaries, companies and joint ventures, eg accounts Review of the accounts payable system and identification of amounts paid to assisted or voluntary organisations.

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Controls in relation to payments with related parties are no different to all transactions. There remains however clear separation of duties between those ordering the goods / services and those giving authority to pay. Significant transactions will be subject to the additional controls detailed in 4 below.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	In addition to normal approval processes for transactions, all payments over £5,000 in value require the additional approval of the Finance Manager. Any items of expenditure in excess of £50,000 require the express approval of the Chief Executive.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by South Staffordshire Council will no longer continue?	A Corporate Risk Register is maintained which would provide an early warning indicator should any events or conditions transpire that may place the ability of the Council to perform statutory duties under threat. The updating of the Risk Register would require appropriate mitigations to be considered and if necessary prepared in such an eventuality. As an absolute last resort, the S151 Officer has the authority to issue a S114 notice to ensure, in the event of extreme financial distress, statutory services can be prioritised.
2. Are management aware of any factors which may mean for South Staffordshire Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	None
3. With regard to the statutory services currently provided by South Staffordshire Council, does South Staffordshire Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for South Staffordshire Council to cease to exist?	At present, South Staffordshire Council fully expects to be able to continue to deliver all statutory services.
4. Are management satisfied that the financial reporting framework permits South Staffordshire Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes, management are satisfied that the financial reporting framework permits the Council to prepare its financial statements on a going concern basis and that preparing financial statements on a going concern basis provides a faithful representation of the items in the financial statements.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The most significant items on the Council's Balance Sheet that are based primarily on Accounting Estimates are the value of Fixed Assets (Property, Plant and Equipment (PPE) in particular) and the valuation of assets and liabilities in relation to the Pension Fund.</p> <p>With regards to PPE, a qualified firm of valuers (Wilkes, Head and Eve) are appointed to value the PPE assets of the Council in accordance with RICS, IFRS criteria and the Cipfa Code of Practice. Assumptions used and valuations arrived at are routinely challenged by Management and particularly so if presenting any unexpected outcomes.</p> <p>Where any residual, material uncertainty remains this is disclosed in the accounts, alongside an assessment of the sensitivity of the published estimate to changes and its impact on the Balance Sheet and relevant reserves.</p> <p>In relation to the Staffordshire Pension Fund, a qualified firm of actuaries, Hymans Robertson, are appointed to value the assets and liabilities of the Council's contributions to the Pension Fund in accordance with professional standards. Assumptions used and valuations arrived at are routinely challenged by Management particularly so if presenting any unexpected outcomes. Where any residual, material uncertainty remains this is disclosed in the accounts, alongside an assessment of the sensitivity of the published estimate to changes and its impact on the balance sheet and relevant reserves.</p>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>The Sensitivity Analysis detailed above enables the Council to quantify the risk of any misstatement due to material error. The engagement of professional third-party firms with clear terms of reference in valuing the main accounting estimates that may be subject to uncertainty further mitigates this risk.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	A range of methods are used to both collect and evaluate source data in order to either make key accounting judgments, or if applicable, distribute to third parties for the application of their professional expertise in forming estimations. Outcomes are routinely challenged by management and if in any given year, a method was found to be giving an insufficient level of accuracy (or with insufficient confidence), alternative methodologies would be investigated and where appropriate, adopted.
4. How do management review the outcomes of previous accounting estimates?	<p>Specific debtor and creditor balances accrued for would be measured against eventual financial settlement of the outstanding amounts identified.</p> <p>Significant swings in valuations of estimates provided by third parties would be discussed with the professional bodies to ascertain if such discrepancies were caused by any prior error or false assumption as opposed to natural market fluctuations within the boundaries of previously reported uncertainty. Clearly, if error or false assumption has occurred, subsequent reviews would be significantly more stringent.</p>
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	None applied.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Specialist skills are applied where the knowledge, expertise or qualifications necessary are not available within the Finance Team. Specifically, this applies to PPE and Pension Fund valuations.</p> <p>The appointment of Hymans Robertson as the Actuary is at the behest of the Staffordshire Pension Fund. Wilkes, Head and Eve are appointed by South Staffordshire Council via a tendering exercise.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Management assess the controls required in accordance with an assessment of the risk attributable to any significant error in assessment made and its potential impact on presenting a true and fair view of the Council's financial position.</p> <p>The primary control required of the service providers is that they are appropriately experienced and professionally qualified. Additionally, Wilks, Head and Eve operate a valuer rotation policy to ensure fresh approaches to each year's valuations.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Accounting Estimates and how the methodologies behind their application are routinely reported to the Audit and Risk Committee for appropriate check and challenge.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The Accounting Policies and Estimation Uncertainty are presented each financial year to Audit and Risk Committee for approval and adoption.</p> <p>These include, as detailed the Management process for making significant accounting estimates, the methods and models used. The resulting accounting estimates are reflected in the draft Statement of Accounts which are published during the period of External Audit review and can be inspected by the public in addition to any officers or members who wish to scrutinise.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	None but Pension Fund estimates will be reported alongside disclosure of the sensitivity of the estimates to various levels of error and potential impact on the Balance Sheet.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Arrangements for accounting estimates are consistent with those adopted across the sector and have proven robust over a number of financial cycles with particular reference to South Staffordshire. There is no complacency. The process provides opportunity for any unexpected outcomes to be rigorously challenged. Those charged with governance are also able to challenge the methodologies applied at Audit and Risk Committee.
12. How is the Audit and Risk Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Audit and Risk Committee has annual sight of the Accounting Policies and Estimation Uncertainty and is asked at a relevant Committee meeting to expressly approve these policies.

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?
Land and buildings valuations	Commission independent valuers. Forward information based on current rentals where applicable.	Report received from valuers. Any unexpected outcomes would be routinely challenged	Yes – Wilks, Head and Eve	In the event of any material uncertainty being reported by the valuers (as was the case in the midst of the Covid pandemic), implications on the Balance Sheet of alternative valuations would be disclosed.	No
Depreciation	Depreciation is provided for on all Property, Plant and Equipment and Intangible Assets using a straight-line method over their estimated useful lives	Estimated useful lives determined by valuers (property) and suitable, experienced officers for plant/equipment.	Wilks, Head and Eve used to ascertain estimated useful lives	Not considered to be a material level of uncertainty	No

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?
Valuation of defined benefit net pension fund liabilities	Hymans Robertson, the actuary to the Staffordshire Pension Fund complete detailed valuation of net pension fund liabilities.	Report is read in detail including assumptions used to make estimates with appropriate enquiries made should any appear unreasonable.	Hymans Robertson as the fund actuary	Assessments of future valuations of asset values/ longevity and other key factors always carry a degree of uncertainty. Impact of variations in assumptions made to figures on the balance sheet is routinely disclosed in the Statement of Accounts.	No
Fair value estimates	As appropriate according to the class of assets and utilising the relevant hierarchy of valuation.	Report of valuers read in depth. Any unexpected results routinely challenged.	Wilks Head and Eve as property valuers	As applicable to each class of asset	No

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?
Provisions	Any provisions required shall be determined to have met the proper Accounting definition of a provision. Should any occur, a best estimate of the liability will be made in the accounts.	Senior Management (CLT) review of the Outturn and any provisions made will be challenged.	Not routinely but could potentially if a specific, material provision was required.	As per definition, a provision is made for a liability of uncertain timing or amount. Should any provision have a potentially material impact on balance sheet and/or CIES, sensitivity analysis in relation to alternative estimates will be provided.	No
Accruals	Invariably debtor and creditor accruals based upon known amounts owed to / from the Council and accounted for accordingly.	Discussion with Service Managers in relation to their service. Rigorous checks of 2023/24 payments / receipts to ensure all related to prior year are accounted for accordingly. Analytical comparison with prior year	No	If material uncertainty exists in relation to the value of an accrual, consideration would be given to correctly recording as a provision / contingent asset/liability accordingly.	No

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?
Credit loss and impairment allowances	Assets are reviewed for impairment at the end of each reporting period. Examples of impairment include: a significant reduction in a specific asset's value and evidence of physical damage (e.g. and applicable in 2021/22 fire damage). A bad debt provision is applied to Sundry Debtors, Collection Fund debtors and Housing Benefit Overpayments due to be returned.	Senior Management (CLT) review of the Outturn and any provisions for bad debt made will be challenged.	No	The actual level of bad debts written off is compared against provisions made on an annual basis to ascertain the reasonableness of provisions made.	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?
Finance lease liabilities	<p>Lease payments are apportioned between a charge for the acquisition of the interest in the PPE. The items are subject to depreciation.</p> <p>The criteria for determining a finance lease under IFRS has become broader and more subjective. This has given rise to certain leases being reclassified as finance leases that were previously determined as operating leases under SORP/UKGAAP.</p>	Senior management (CLT) discussion of the outturn report.	No	Not considered to be material	No



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