

TO:- Audit and Risk Committee

Councillor John Michell , Councillor Andrew Adams , Councillor Barry Bond M.B.E. , Councillor Steph Dufty ,
Councillor Christopher Evans , Councillor Warren Fisher , Councillor Martin Perry , Councillor Sue Szalapski

Notice is hereby given that a meeting of the Audit and Risk Committee will be held as detailed below
for the purpose of transacting the business set out below.

Date: Tuesday, 11 July 2023

Time: 16:00

Venue: Council Chamber, Codsall Community Hub, Wolverhampton Road, Codsall, South
Staffordshire, WV8 1PX



D. Heywood
Chief Executive

A G E N D A

Part I – Public Session

- | | | |
|----------|---|----------------|
| 1 | Minutes | 3 - 4 |
| | To approve the Minutes of the meeting of the Audit and Risk Committee held on 20 June 2023. | |
| 2 | Apologies | |
| | To receive any apologies for non-attendance. | |
| 3 | Declarations of Interest | |
| | To receive any declarations of interest. | |
| 4 | Internal Audit Annual Outturn Report 2022/23 | 5 - 42 |
| | Report of the Chief Internal Auditor | |
| 5 | External Audit Plan 2023 | 43 - 62 |
| | Report of the External Auditor | |

7 Exclusion of Press and Public

To resolve that the Press and Public be excluded from the meeting during consideration of the following items on the grounds that they are likely to involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12(A) to the Local Government Act 1972.

Part II – Private Session

8 Incident Response Preparedness Update

This item is exempt in accordance with Schedule 12A Local Government Act 1972

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

RECORDING

Please note that this meeting will be recorded.

PUBLIC ACCESS TO AGENDA AND REPORTS

Spare paper copies of committee agenda and reports are no longer available. Therefore should any member of the public wish to view the agenda or report(s) for this meeting, please go to www.sstaffs.gov.uk/council-democracy.

Minutes of the meeting of the **Audit and Risk Committee** South Staffordshire Council held in the Council Chamber Community Hub, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX on Tuesday, 20 June 2023 at 16:00

Present:-

Councillor Andrew Adams, Councillor Steph Dufty, Councillor Christopher Evans, Councillor John Michell, Councillor Martin Perry

01 **MINUTES**

RESOLVED: that the Minutes of the meeting of the Audit and Risk Committee held on 23 March 2023 be approved and signed by the Chairman.

02 **APOLOGIES**

Apologies were received from Councillors Bond MBE and Szalapski.

03 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

04 **2023/24 COMMITTEE WORK PROGRAMME**

The Committee received a report of the Corporate Director Finance and Resources (Section 151 Officer) and the Director of Legal and Governance (Monitoring Officer).

RESOLVED That the Audit and Risk Committee review and support the programme of work as set out in Appendix A of the report.

05 **INTERNAL AUDIT STRATEGY AND PLAN 2023/24**

The Committee received a report of the Chief Internal Auditor.

RESOLVED That the Audit and Risk Committee (a) approve the Internal Audit Strategy for 2023-24

(b) have reviewed the proposed coverage of the Internal Audit Plan and Counter Fraud Plan 2023-24, and,

(c) recommend approval of the Internal Audit Plan and Counter Fraud Plan for 2023-24 to the Section 151 Officer.

06 **TREASURY MANAGEMENT REPORT - Q4 2022/23**

The Committee received a report of the Corporate Director Finance and Resources (Section 151 Officer).

RESOLVED That the Audit and Risk Committee note the position at the end of Quarter 4as follows:

- Total on deposit at the start of the quarter £26,700,000
- Total on deposit at the end of the quarter £16,150,000
- Interest earned in the quarter was £247,277 against a budget of £7,500
- Total borrowing at the start of the quarter was £15,000,000 (long term borrowing)

28 June 2023

- Total borrowing at the end of the quarter was £15,000,000
- Borrowing costs in the quarter were £57,945 against a budget of £77,500.

07

**ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS
AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Committee received a report of the Finance Manager and Section 151 Officer.

RESOLVED That the Audit and Risk Committee accept the critical judgements that have been used in applying the accounting policies along with the assumptions about the future and other major sources of estimation uncertainty detailed at Appendix A of the report.

The Meeting ended at: 16:50

CHAIRMAN

SOUTH STAFFORDSHIRE COUNCIL**AUDIT & RISK COMMITTEE – 11 JULY 2023****INTERNAL AUDIT ANNUAL OUTTURN REPORT 2022/23****REPORT OF THE CHIEF INTERNAL AUDITOR****PART A – SUMMARY REPORT****1. SUMMARY OF PROPOSALS**

1.1 This report presents the Internal Audit annual outturn report for 2022/23.

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The delivery of the internal audit plan 2022/23 provides management with assurances that their service objectives which support the Council's priorities are being achieved. The work of Internal Audit covers those priorities contained within the Council's Plan 2020-2024
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The delivery of the audit plan is not considered to have any adverse implications to equal opportunities and diversity policies.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	11 July 2023	
FINANCIAL IMPACT	Yes	There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy as are the costs of insurance covers to mitigate the cost of any financial loss arising from the failure of internal controls.
LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment

		as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers (as appropriate).
IMPACT ON SPECIFIC WARDS	No	No impact.

PART B – ADDITIONAL INFORMATION

- 3.1 This report outlines the work undertaken by Internal Audit in respect of the 2022/23 annual audit plan.
- 3.2 Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment of the organisation. Internal audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
- 3.3 Internal Audit is required by professional standards i.e. the Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements, the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate: -
- The opinion;
 - A summary of the work that supports the opinion; and
 - A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
- 3.4 The underlying principles to the 2022/23 audit plan were outlined in the Internal Audit Strategy and Plan 2022/23 paper presented to and approved by Members of the Audit & Risk Committee on 12th April 2022. Since the original plan was approved, there have been some additional exercises undertaken and some audits cancelled. The net effect, however, is that the key performance target of 90% for delivery against the audit plan 2022/23 has been exceeded.
- 3.5 Work is scheduled to meet the requirements of the service areas to ensure the greatest benefit is achieved from the audit work. Therefore, it is not uncommon for reports to be at draft report stage at the end of the audit year. The Internal Audit Team are proactively seeking to finalise the remaining reports as soon as possible.

¹ Public Sector Internal Audit Standards definition of Internal Auditing.

3.6 Audit opinions are awarded for individual systems and compliance audits within one of the following categories: -

- Substantial Assurance (positive opinion);
- Adequate Assurance (positive opinion); and
- Limited Assurance (negative opinion).

3.7 Detailed below is a high level summary of the work undertaken by the Internal Audit Service analysed over the following categories: -

- Core Financial Systems;
- Assurance Reviews (Other Systems Audits); and
- Counter Fraud and Corruption Work, including Special Investigations.

3.8 For those areas awarded 'limited assurance', in addition to Members of the Audit & Risk Committee receiving a full copy of the report, the relevant officers attend the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations.

3.9 Internal audit will continue to track and report on the implementation of high level recommendations made in the previous and current year. A summary of the status of high level recommendations is outlined in the table below. An update on the high level recommendations and further details are attached as **Appendix 1** to this report.

Year	Recommendations Made			
	Total	Implemented No. %	Superseded	In Progress No. %
High Level Recommendations b/fwd. from previous Year	7	3	0	4
2022/23	5	0	0	5

2022/23 Audit Plan Outcomes

Core Financial Systems

3.10 The following core financial system reviews were carried out during 2022/23: -

Core Financial Systems Description	Opinion			
	Substantial	Adequate	Limited	N/A Advisory*
Covid 19 - Test & Trace Support Payment Verification	✓			
Debtors & Debt Recovery			✓	
Creditors		✓		
Budgetary Control	✓			

Payroll	✓			
E-Payments	✓			
Test and Trace Contain Outbreak Management Fund - Surge funding grant verification	✓			
Council Tax including discounts exemptions and empty properties		Draft		
Total Audits Delivered (8)	5	2	1	0

*Consultancy / Advisory work undertaken therefore no assurance opinion required.

Assurance Reviews (Other Systems Audits)

3.11 The following other assurance system reviews were carried out during 2022/23: -

Core Financial System Description	Opinion			
	Substantial	Adequate	Limited	N/A Advisory*
Digital Strategy & Transformation Programme				✓
Climate Change		✓		
Recruitment including pre-recruitment checks	✓			
Leisure Centres – Development & Refurbishment		Draft		
Disability Facilities Grant		✓		
Commercial Units		✓		
Development Management	✓			
Developers Contributions (S106 Agreements)	✓			
Corporate Procurement – Monitoring of Service & Commercial Contracts		✓		
Cybersecurity – Incident Preparedness and Response effectiveness			✓	
IT Systems Resilience		✓		
Time Recording				✓
Total Audits Delivered (12)	3	6	1	2

Counter fraud and corruption work

- 3.12 The following counter fraud and corruption audit work was carried out during 2022/23: -

Counter Fraud and Corruption Work	Opinion			
	Substantial	Adequate	Limited	N/A Advisory*
Continuous Controls Monitoring		✓		
Purchase Card Administration		✓		
Total Audits Delivered (2)	0	2	0	0

In addition to the specific pieces of Counter Fraud and Corruption Work undertaken, fraud risks are considered and reviewed as part of our planned system audits undertaken.

Special Investigations (Internal)

- 3.13 The table below summarises those special investigations conducted during the financial year and any confirmed financial losses associated with each: -

Special Investigation	Financial Value	Control Area
Missing Cash	£345	Cash/Asset Management arrangements
Total	£345	N/A

- 3.14 Further details of the Counter Fraud and Corruption work carried out in-year are provided in **Appendix 2** of this report, including the outcomes from our Continuous Controls Monitoring programme of work.

Other In Year Activities

- 3.15 The Internal Audit Manager continues to meet with the Corporate Director Finance & Resources (S151 Officer) and Director Legal & Governance (Monitoring Officer) on a regular basis. In addition, pre-agenda setting meetings are held with the Chair of the Audit & Risk Committee, as required. Meetings are also held between the Chief Internal Auditor and the Corporate Director Finance & Resources to review the on-going arrangements and delivery of Internal Audit Services in accordance with the contract in place with Staffordshire County Council.

Overall Opinion on the Control Environment

- 3.16 The UK PSIAS requires that the Head of Internal Audit (HIA) must deliver an annual internal audit opinion on the overall internal control environment of the Authority.

The methodology for formulating this opinion is set out within the Internal Audit Strategy which was approved by the Audit & Risk Committee on 12th April 2022. This methodology has been applied in formulating the annual audit opinion for 2022/23.

- 3.17 Each separate category of audit work is assessed against a benchmark of achieving a score of at least 80% of the total number of audits performed being awarded an opinion of “adequate or above” within each category. For reasons of simplicity, each category attracts equal weighting and a simple pass/fail assessment is used to differentiate the overall opinion between “Substantial, Adequate and Limited” as illustrated below:

Overall Opinion Level	No. of categories achieving the 90% benchmark
Substantial Assurance	5 out of the 5 categories
Adequate Assurance	3 or 4 out of the 5 categories
Limited Assurance	2 and below out of the 5 categories

Calculation of the 2022/23 Overall Assessment

- 3.18 The following table details the calculation of the 2022/23 overall assessment: -

Audit Category	% Awarded an Opinion of at Least “Adequate”	2021/22	2022/23
		Pass/Fail	Pass/Fail
Core Financial Systems	88%	Pass	Pass
Assurance Reviews (Other System Reviews)	90%	Pass	Pass
Counter Fraud & Corruption Work, including Special Investigations	90%	Pass	Pass
Overall Total		3 out of 3 categories	3 out of 3 categories

- 3.19 Based on the above, a “substantial” assurance opinion on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework (i.e. the control environment) can be given for the 2022/23 financial year. This is consistent with the opinion awarded in 2021/22.

Performance Measures

3.20 Key performance measures for the Service are detailed below: -

Description	Target	2022/23
% of Audit Plan Completed (issued to draft stage)	90%	100%
Average scores achieved on customer satisfaction questionnaires	4	5

Performance against the UK Public Sector Internal Audit Standards

- 3.21 The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector. These have been updated periodically since (last updated April 2017). A Local Government Application Note (LGAN) has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards. The LGAN is also updated periodically (last updated March 2019).
- 3.22 All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments (n.b the Internal Audit Service undertakes its own self-assessment annually the result of which are reported to this Committee), external quality assessments (EQA) or a combination of both methods. However, the standards state (standard 1312) that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. The service's last EQA was undertaken in January 2018 and therefore a further external assessment was scheduled for January 2023 and was subsequently procured from CIPFA following a quotation process.
- 3.23 The EQA comprised a combination of a review of documentation provided by Internal Audit; a review of a sample of completed audits, a survey completed by a range of stakeholders as well as interviews with key stakeholders. This work took place week commencing 16th January 2023. The full assessment results were reported to the Audit & Risk Committee at its meeting held on 23rd March 2023 which outlined the overall conclusion and opinion of the assessor.
- 3.24 For ease of reference, the key highlights from the External Quality Assessor's report published in February 2023 were that 'the review established that there were no areas of non-compliance or partial compliance with the standards identified'. Based on the assessor's work undertaken, the overall conclusion was – 'It is our opinion that the self-assessment for the Staffordshire County Council's Internal Audit Service (which incorporates South Staffordshire Council's Internal Audit Service) is accurate and as such we conclude that the Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application

Note'. This is the highest category level that can be awarded via the CIPFA assessment process.

3.25 Whilst no recommendations were made, there was one advisory action for management to consider which related to keeping a watching brief on the developments to the standards which are due to be consulted on and revised during 2023/24.

3.26 With the above in mind, the work undertaken by the Internal Audit Service during 2022/23 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the Chief Internal Auditor or the Service from delivering the annual Head of Internal Audit opinion for 2022/23.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1 None identified.

5. PREVIOUS MINUTES

5.1 Not Applicable.

6. BACKGROUND PAPERS

Appendix 1 – Update on the high level recommendations

Appendix 2 – Counter Fraud & Corruption Work 2022/23

7. RECOMMENDATION

7.1 To receive the annual outturn report containing the annual internal audit opinion for 2022/23.

Report prepared by: *Susan Bluck,*
Audit Manager

PREVIOUS YEARS' HIGH LEVEL AUDIT RECOMMENDATIONS – UPDATE 30th JUNE 2023

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
1	Mileage & Subsistence	12.12.17	The Travel & Subsistence Policy is reviewed and approved as a priority task.	Revised 30.09.23	<p>The Finance Manager has confirmed that a review of the policy has been delayed to take into account the impact of the Covid 19 pandemic on working practices and is now to be undertaken by the end of September 2023.</p> <p>It is recognised that the Covid pandemic has had a transformational impact on ways of working, both internally and externally, which has reduced the requirement for travel and subsequently the risk associated with this recommendation.</p> <p>In Progress</p>	N/A	N/A

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
2	Leisure Centre – Vending Machine Income	04.06.2020	<p>The Council's Legal Team and the Financial Services Team should be consulted on the proposed new contract amendments.</p> <p>This is to ensure that the proposed amendments are Legally binding and arrear balances and monthly payment figures are correct to ensure recovery of the outstanding debt by end of the financial year.</p>	31.07.2023	<p>Review of the Sundry Debtors report as of 31st March 2022, confirmed that there remained an outstanding balance of £5,343 against the invoice raised to recover the overpayment of £29,422.</p> <p>The Finance Manager has confirmed that as of the 26th of June 2023 there continues to be an aged debt recorded against this supplier. Further investigation is to be undertaken by the Finance Manager to confirm the current position and liaison will be undertaken with the Service to action recovery of any outstanding debts.</p> <p>In Progress</p>	N/A	N/A

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
3	Central Building Control Partnership	31.05.2022	Assurance be obtained regarding the resilience arrangements in the absence of the Building Control and Land Charges Partnership Manager to ensure there is sufficient coverage of partnership and its meetings, access to records and clarity for staff in terms of which senior officer(s) matters are escalated to.	30.11.2022	Partnership arrangements have been reviewed and revised. This issue has now been addressed. Implemented	31/03/2023	11/07/2023
4	Debtors & Debt Management	31.05.2022	The current Debt Recovery Policy should be reviewed and updated to ensure it reflects current working practices and contains sufficient information to clearly define and communicate required actions and accountabilities within the sundry debt recovery process. The revised Policy should be clearly communicated to Officers of the Council and all existing versions removed from circulation.	Revised Date 31.03.2024	<u>Update – June 2023</u> A Follow Up audit undertaken in June 2023 confirmed that the reviewed Debt Management Policy was approved by Cabinet on the 06/06/2023. Communication of the Policy is yet to be undertaken, however, as a review of supporting processes remains ongoing, communication will be completed when the supporting procedures and resources are	N/A	N/A

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
					also in place. A medium recommendation has been made in relation to this within the audit report – June 2023 In Progress		
5	Debtors & Debt Management	31.05.2022	Accountability for the issue of reminder notices should be confirmed, documented and clearly communicated to accountable individuals. Finance Team to liaise with service areas periodically to ensure that reminder notices have been issued in accordance with the Debt Recovery Policy.	30.10.2022	This will be included and addressed as part of the review of the Debt Recovery Policy and procedures. <u>Update - June 2023</u> Debt Recovery Policy is now in place, approved by Cabinet 06/06/2023. Therefore, this action has been implemented . A Follow Up audit undertaken in June 2023 and an audit review of Commercial Units, confirmed, however, that reminder letters have not been sent consistently since the previous audit was undertaken. A new high level	06/06/2023	11/07/2023

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
					recommendation has been made. Recommendation 2 below refers.		
6	Debtors & Debt Management	31.05.2022	Processes should be developed and implemented to capture, monitor and report debt recovery status and actions undertaken. This should be developed by the Finance Team in conjunction/ liaison with service areas to confirm and agree the information to be provided / reported and to determine accountabilities for the capture, review and reporting of debt management activities.	30.10.2022	<p>Governance arrangements for the management of outstanding debts, including monitoring and reporting has been considered and incorporated within the revised Debt Recovery Policy.</p> <p>The Finance Team have increased liaison with some service areas to support debt management activity and this will continue to be undertaken until revised arrangements are in place.</p> <p>Implemented</p>	06/06/2023	11/07/2023

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
7	Debtors & Debt Management	31.05.2022	<p>The current Debt Recovery Policy should be reviewed and updated to ensure it reflects current working practices and contains sufficient information to clearly define and communicate required actions and accountabilities within the sundry debt recovery process.</p> <p>The revised Policy should be clearly communicated to Officers of the Council and all existing versions removed from circulation.</p>	<p>Revised date</p> <p>31.03.2024</p>	<p><u>Update – June 2023</u></p> <p>A Follow Up audit undertaken in June 2023 confirmed that the reviewed Debt Management Policy was approved by Cabinet on the 06/06/2023.</p> <p>Communication of the Policy is yet to be undertaken, however, as a review of supporting processes remains ongoing, communication will be completed when the supporting procedures and resources are also in place. A medium recommendation has been made in relation to this within the audit report – June 2023</p> <p>In Progress</p>	N/A	N/A

NEW 2022/23 HIGH LEVEL AUDIT RECOMMENDATIONS – UPDATED 30 June 2023

No.	Audit Subject	Date reported to Cttee	Recommendations	Target Date for Implementation	Current Status	Actual Date of Implementation	Date presented to Cttee to Clear
1	Commercial Units	11/07/2023	<p>Management should ensure that a review of the insurance in place across tenants in both the Commercial Units and Business Hub is conducted. It should be ensured that insurance documentation is requested from all tenants where documents have not been retained, to confirm that insurance is adequate. Furthermore, a tenant insurance review process should be implemented to periodically update tenant insurance details and request renewal documentation.</p> <p>The Customer Relations Team Manager should ensure that all Business Hub tenants are</p>	30.09.2023	<p>The recommendation has been discussed and agreed with the Service Area and actions to address the issues identified are under consideration.</p> <p>Not Due</p>	N/A	N/A

			contacted immediately to ensure tenants premises are insured against loss or damage and to request documentation.				
2	Debtor & Debt Management (Follow up review – June 2023)	11/07/2023	It is recommended that consistent and processes compliant with the revised policy for issuing reminder letters are implemented and recovery actions taken are recorded clearly.	31.03.2024	To date there has been focus and scrutiny on pursuing debts of high financial value on an ad-hoc basis. Further action will be taken as part of the ongoing review of processes and resources to implement a more robust process for the follow-up of all debt. Not Due	N/A	N/A
3	Debtor & Debt Management (Follow up review – June 2023)	11/07/2023	It is recommended that options for resourcing administrative support of debt recovery processes are further reviewed.	31.03.2024	This is being progressed as part of the ongoing review and is dependent on the availability of resources through restructuring. Not Due	N/A	N/A
4	IT Systems Resilience	11/07/2023	The initial phase of the Disaster Recovery as a Service (DRaaS) implementation will test out the	31.03.2024	The initial phase of the Disaster Recovery as a Service (DRaaS) implementation will test out the	N/A	N/A

			<p>principles of Cloud recovery using the council's established and regularly tested Cloud storage backup and recovery processes to the council's existing physical and virtual server estate.</p> <p>A successful proof-of-concept recovery test to Cloud servers will be completed to inform the fuller approach and plan for the DRaaS solution, as well as providing a blueprint and assurance for the recovery of critical IT systems to Microsoft Azure in the interim whilst the fuller DRaaS solution is implemented.</p>		<p>principles of Cloud recovery using the council's established and regularly tested Cloud storage backup and recovery processes to the council's existing physical and virtual server estate.</p> <p>A successful proof-of-concept recovery test to Cloud servers will be completed to inform the fuller approach and plan for the DRaaS solution, as well as providing a blueprint and assurance for the recovery of critical IT systems to Microsoft Azure in the interim whilst the fuller DRaaS solution is implemented.</p> <p>Not Due</p>		
5	Cyber Security – Incident Preparedness & Response Effectiveness	08/03/2023	A cyber incident response plan should be documented and formally approved.	30.09.2023	Initial draft of the Cyber Incident Response Plan will be produced based on advice and support from Local Digital Cyber team from the Department for Levelling Up, Housing and Communities	N/A	N/A

					<p>A refined Cyber Incident Response Plan will be produced following testing of the plan using cyber incident response playbooks and reflection of opportunities to improve the plan.</p> <p>Not Due</p>		
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Appendix 2 Fraud and corruption Outturn Report

2022/23



Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Chief Internal Auditor

Deborah Harris

Lead Auditor

David Fletcher

Report Status

Issued – 28th June 2023

1 Internal Audit Outturn Report 2022/23– Corporate Counter Fraud and Corruption Activity

1.1 Introduction and Context

- 1.1.1 During the 2022/23 financial year, Internal Audit has continued to develop its fraud strategy, response and testing programme based upon a fraud risk assessment. The overarching objective of the Corporate Counter Fraud Work Plan (referred to as Counter Fraud Work Plan) is to minimise the cost of fraud, bribery and theft at the Council. The Counter Fraud Work Plan can be revised in year to take into account emerging risks and developing systems at the Council.
- 1.1.2 This report details our counter fraud work completed in 2022/23 and looks forward to anticipated developments in 2023/24.

1.2 Strategic

- 1.2.1 As part of the Audit Planning process, past fraud experience and inherent fraud risks are discussed with management and risk assessed.
- 1.2.2 The top fraud risks identified in the risk assessment are:
- Council Tax including discounts, exemptions and empty properties;
 - Housing Benefits & Council Tax Support (aka Council Tax Reduction scheme (CTRS));
 - NNDR including discounts, exemptions and empty properties;
 - Creditors; and
 - Payroll Claims.
- 1.2.3 Each of these areas have been included in the Internal Audit workplan either in the last three years or in 2023/24. The risk assessment remains a 'live' document that can be updated throughout the year in the event of emerging risks.
- 1.2.4 The Internal Audit Manager – Fraud is an Accredited Counter Fraud Specialist with 15 years of experience working in Public Sector Fraud.
- 1.2.5 To keep abreast of emerging fraud risks and opportunities, the Internal Audit Manager – Fraud, is a regular attendee of the West Midlands Fraud Forum and the Midland Counties Fraud Group. The Staffordshire Counter Fraud Partnership forums ceased in 2022/23, however steps are being taken to re-establish these in 2023/24.

- 1.2.6 Over the course of the year, Internal Audit have reviewed the Council's Counter Fraud and Corruption Policy to ensure opportunities to deter fraud and hold individuals to account are maximised. Comments were fed back to the Director of Legal & Governance.
- 1.2.7 Internal Audit welcomes the opportunity to consider policies as they are being revised and updated, to ensure clarity over the current and correct processes required to be followed, which also aids the application of successful sanctions (criminal, civil recovery, or disciplinary) in the event of fraud or error.
- 1.2.8 A programme of Continuous Controls Monitoring (CCM) is in place, with an associated strategy document being shared with key members of staff. Full details of the CCM programme to date can be found at paragraph 1.5 below. Efforts are being made to expand testing carried out as part of our CCM programme. It is anticipated that a comparison of Council Tax data to Electoral role will be completed imminently, with proposed tests in place, however, this has been delayed by difficulties in obtaining Council Taxpayer data.

1.3 Counter Fraud Outcomes 2022/23

- 1.3.1 The risk of fraud is considered during the process of designing Internal Audit briefing documents, and by auditors whilst an audit is being conducted. As a result, a number of recommendations are raised throughout the year which contribute to the prevention, detection and deterrence of fraud.

1.3.2 For reference, the table below summarises the volume of recommendations related to fraud risks arising from 2022/23 Internal Audits.

Audit	High Priority	Medium Priority	Low Priority
Creditors	0	0	1
E-Payments	0	0	3
Council Tax including discounts exemptions and empty properties	0	2	0
Climate Change	0	0	1
Disability Facilities Grant	0	1	0
Development Management	0	0	1
Corporate Procurement - Monitoring of Service & Commercial Contracts	0	1	1
Cybersecurity - Incident Preparedness and Response effectiveness	1	3	0
Total	1	7	7

1.3.3 It is noted that of the 15 fraud related recommendations raised. Members of the Audit & Risk Committee receive a copy of all audit reports once finalised.

1.3.4 All recommendations are subject to follow up to ensure appropriate steps are taken to mitigate and manage identified risks. This is carried out using our on-line recommendation portal.

1.4 Fighting Fraud and Corruption Locally ('FFCL')

1.4.1 In March 2020, CIPFA refreshed it's FFCL strategy 2016-2019 with the new Fighting Fraud and Corruption Locally – A Strategy for the 2020's. The Strategy is now hosted by CIFAS².

1.4.2 A self-assessment of the Council's work to counter fraud against the latest Fighting Fraud and Corruption Locally Checklist has been undertaken, the full findings of which are detailed at the end of this appendix (Section 2).

² Credit Industry Fraud Avoidance System, founded in 1998. Its scope has been extended beyond the credit industry in subsequent years.

Our assessment has been focussed on Corporate Fraud to date, as Revenues and Benefits Fraud is managed in-house.

1.4.3 The FFCL self-assessment found the Council to be fully compliant with 33 of the 37 standards, as of March 2023. The Council is partially compliant with three standards. A standard relating to the analysis of referrals has been assessed to be not applicable, due to the low volume of referrals received.

1.4.4 Available best practice will continue to be monitored and used to identify areas for development in the Council's counter fraud work in-year.

1.5 Continuous Controls Monitoring

1.5.1 Continuous Controls Monitoring (CCM) is a programme of testing designed to use data analytics tools efficiently to test large volumes of transaction data in order to identify "high risk" transactions for further review.

1.5.2 The purpose of continuous controls monitoring is to:

- Detect fraud;
- Detect error;
- Deter fraud and error through use of publicity highlighting the existence of CCM; and
- Provide reassurance where appropriate that controls are operating correctly, or otherwise.

1.5.3 The key benefit of CCM over random sample testing is that 100% sample sizes can be used to test for specific anomalies. It is anticipated that following the introduction of a test, algorithms used can be refined to improve the results, limiting 'false positive' matches and learning from positive findings to best target adverse findings.

1.5.4 As CCM findings are identified and verified, key findings will be reported to management. Where appropriate, issues identified will be considered as part of the Internal Audit plan for current or future years. Opportunities to expand CCM will also consider those control weaknesses identified in Internal Audit reports.



1.5.5 A CCM Strategy has been prepared and agreed with management. This outlines initial areas of testing, and potential areas for expansion going forward. The strategy will be revisited on a periodic basis.



1.5.6 CCM testing started during 2022/23 and focussed on the following data sets:

- Invoice Payments;
- Absence Records;
- Purchase Card Statements; and
- Expenses Claims.

1.5.7 The matching of Council Tax data to Electoral Role data, to identify inconsistencies which may indicate incorrect application of Council Tax discounts has commenced, with areas for matching identified and electoral role data obtained. Council Tax data, at the time of writing, has not been provided due to issues extracting the data from the systems used. It is anticipated that this will be completed in Quarter 2 2023/24.

1.5.8 A test by test summary of findings to date are detailed below:

Test	Findings to date	Risk Rating
Duplicate Invoices	Invoice data for the period April 2022 to March 2023 has been analysed to identify duplicate payments. In total, 975 invoices were subject to analysis, identifying three groups of payments which were potentially duplicated. Follow up enquiries by Council Officer identified 2 of these represented duplicate payments, totalling £968.72.	●

Test	Findings to date	Risk Rating
Purchase Cards vs Absence	<p>In 2022/23 accurate detailed transaction data has been obtained. This has allowed us to match this data to absence data in order to identify card use whilst individuals were absent from work.</p> <p>Complete absence data has been received for the period April to October 2022, with November 2022 to March 2023 currently outstanding.</p> <p>For the period where both data sets were available no transactions of concern were identified.</p>	
Duplicate Expenses	<p>Difficulties extracting expenses data encountered in 2021/22 have now been resolved, and testing for duplicate expenses has been conducted for claims approved in the 2022/23 financial year.</p> <p>Two individuals have been identified as having submitted mileage claims that appear to include duplicates. One of these has agreed repayment (by entering a negative claim) of 31 miles (c£12.40). A response is being chased from the second individual (8 journeys totalling 112 miles, c£44.80).</p>	

1.5.9 Over the course of 2023/24, it is expected that the above testing will continue as a rolling programme and expanded into other areas of Council business. It is anticipated that in Summer 2023 matching of Council Tax records to Electoral role data will be completed. This will initially be treated as a pilot exercise, with options for repeating the data match at regular intervals considered after establishing the value and validity of findings.

1.6 Proactive Exercise – Purchasing Cards

1.6.1 Whilst conducting our CCM work in 2021/22, gaps in compliance with purchase card processes were noted. In response, a proactive exercise has been completed in 2022/23 to provide assurance that controls are adequate and effectively implemented.

1.6.2 Our review identified areas of non-compliance, particularly around completion and authorisation of purchase card transaction logs. It is noted, however, that following the allocation of additional resource to monitoring completion of the logs from January 2023 compliance in this area has been significantly improved. Five recommendations have been raised regarding updating procedure documents, collating a consolidated record of card holders and limits, accounting for VAT and regular reconciliations, and continuing to monitor purchase card transaction logs.

1.7 National Fraud Initiative 2022

1.7.1 The Council submitted data to the Cabinet Office's National Fraud Initiative 2022 in October 2022.

1.7.2 Results of the analysis have been received and will be reviewed by the Council during 2023/24. In total, the Council has been provided with 433 matches over the following areas of activity:

Area of Activity	Number of Matches
Housing Benefit	9
Payroll	12
Housing Waiting List	79
Council Tax	226
Creditors	107
Total	433




1.7.3 The Audit Committee will receive a report of initial findings in Autumn 2023, and it is anticipated all match screening and investigations will be completed by April 2024. Internal Audit have agreed to monitor the processing of matches, as well as reporting to Management and the Audit and Risk Committee at appropriate intervals.





1.8 Referrals and Investigations





1.8.1 One matter has been passed to Internal Audit for investigation in 2022/23. This related to a cash theft of £345.30. Following interviews with members of staff responsible for the cash and consideration of controls in place, it was established that there was limited prospect of obtaining evidence identifying who had taken the cash. Recommendations have been raised regarding safe controls, CCTV management and improving cash handling procedures and this was reported in full to this Committee at its meeting held on 23rd March 2023.





2 FFCL 2020 Self-Assessment – 2022/23





2.1.1.1 A self-assessment of the Council's work to counter fraud against CIPFA's Fighting Fraud and Corruption Locally Checklist 2020 has been undertaken, the findings of which are detailed below. The assessment is based on our experience of Corporate Fraud at the Council and does not take into account Revenues and Benefits Fraud activities undertaken.






Ref	FFCL Standard	Related Activity	Rating	Areas for development
1	The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.	<p>A Fraud Risk Assessment is completed as part of the annual internal audit planning process. The results from this process are reported to the Corporate Leadership Team and the Audit & Risk Committee as part of the formal approval process for the Internal Audit and Counter Fraud Plan each year.</p> <p>As part of the approval of the Internal Audit and Counter Fraud Plan, the Plan is presented to CLT and the Audit and Risk Committee. Both presentations include details of the top fraud risks for the year ahead.</p>		No further action required.
2	The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.	<p>On an annual basis the Council's counter fraud activity is compared against the Fighting Fraud and Corruption Locally Strategy.</p> <p>Emerging and future risks are considered as part of the risk assessment. The Internal Audit Manager – Fraud is a member of peer group forums, where emerging risks and fraud identified are discussed.</p>		No further action required.
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.	<p>This appendix details our assessment of South Staffordshire Council against the Fighting Fraud and Corruption Locally Strategy Document.</p> <p>This assessment is refreshed on an annual basis as part of the outturn report.</p>		Further assessment to be performed on an annual basis.






Ref	FFCL Standard	Related Activity	Rating	Areas for development
4	The relevant portfolio holder has been briefed on the fraud risks and mitigation	Internal Audit meet with the S151 and Monitoring Officer on a monthly basis, and on a quarterly basis to the Audit and Risk Committee.		No further action required.
5	The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources.	The Audit and Risk Committee receives a regular progress report on all Internal Audit activities including Counter Fraud Activity during the year which enables the Committee to scrutinise the Council's counter fraud work.		No further action required.
6	There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.	<p>There is a Counter Fraud and Corruption Policy which was refreshed in 2019. The Policy contains definitions of key offences, principles of public life and details of how to report fraud. The Council's Intranet site is also used to receive fraud concerns.</p> <p>The Counter Fraud and Corruption Policy was Subject to review in 2022/23.</p>		No further action required.
7	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<p>The following Policies and Procedures promoting probity across the Council are in place.</p> <ul style="list-style-type: none"> • Counter Fraud and Corruption Policy • Financial Procedure Rules • Procurement Procedure Rules • Employee code of Conduct; • Members Code of Conduct; and • Whistleblowing. 		No further action required.






Ref	FFCL Standard	Related Activity	Rating	Areas for development
8	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	Fraud risk is considered within the Internal Audit Risk assessment methodology used to produce the annual Internal Audit Plan Separately, a Fraud Risk Register is reviewed during the audit planning process for the Fraud Workplan, and this is subject to ad-hoc updates throughout the year.		No further action required.
9	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Council Policies and Procedures are typically subject to review as part of a typical proactive anti-fraud exercise. We have been consulted in 2022/23 with regard to the Council's Counter Fraud and Corruption Policy.		No further action required.
10	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	Internal Audit will discuss with Management on how best to deter fraud by publicising successful convictions on a case by case basis.		To be considered on a case by case basis when appropriate.
11	The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.	The fraud workplan is in place dedicating time to preventing, detecting and deterring fraud. The workplan is approved annually by the Audit and Risk Committee and progress against the plan is reported at year end as part of the Internal Audit Outturn Report.		No further action required.



Ref	FFCL Standard	Related Activity	Rating	Areas for development
12	<p>The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:</p> <ul style="list-style-type: none"> • codes of conduct including behaviour for counter fraud, anti-bribery and corruption • register of interests • register of gifts and hospitality. 	<p>Policies and procedures are in place detailing the requirements for declarations of gifts and hospitality, and pecuniary interests. An internal Audit in this area in 2020/21 resulted in a positive assurance opinion.</p>		No further action required.
13	<p>The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2020 to prevent potentially dishonest employees from being appointed.</p>	<p>The Council has recently introduced a new recruitment module to automate recruitment processes.</p> <p>This was subject to an Internal Audit review in 2022/23, resulting in a Substantial Assurance opinion.</p>		No further action required.
14	<p>Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.</p>	<p>Policies and procedures are in place detailing the requirements for declarations of gifts and hospitality, and pecuniary interests. An internal Audit in this area in 2020/21 resulted in a positive assurance opinion.</p>		No further action required.
15	<p>There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.</p>	<p>The Council has recently adopted a fraud E-Learning package provided by the Staffordshire Counter Fraud Partnership.</p>		Adoption of the E-Learning package to be assessed in 2023/24.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
16	There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	The Council's Whistleblowing Policy was updated in February 2022.		Awareness of the revised whistleblowing policy should be subject to assessment.
17	Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.	The Council's standard terms and conditions of contract place an obligation on suppliers to report concerns regarding fraud, bribery and corruption, and direct suppliers to the Council's whistleblowing policy.		No further action required.
18	Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.	<p>Risk Based work planning means resources are targeted where most value can be obtained.</p> <p>A fraud risk assessment is maintained and this informs the annual Internal Audit and Counter Fraud Plan.</p>		No further action required.
19	There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.	The Counter Fraud Work Plan considers risks across the whole Council and is subject to annual formal approval by the Audit and Risk Committee.		No further action required.
20	Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	In 2021/22 and 2022/23 the limited volume of corporate fraud reports does not warrant statistical analysis.	n/a	Appropriateness of this standard to be monitored on an ongoing basis.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
21	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	All members of staff within the Internal Audit Service have unfettered access to premises and documents for the purposes of counter fraud investigation.		No further action required.
22	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.	As CCM becomes embedded, communications will be issued highlighting key findings. In the event of corporate fraud being identified, the use of communications to deter fraud will be considered on a case by case basis.		Requirement for case outcome communications to be monitored on an ongoing basis.
23	All allegations of fraud and corruption are risk assessed.	All allegations are subject to a case assessment, this includes loss estimates, and prospects of sanctions being obtained.		No further action required.
24	The fraud and corruption response plan covers all areas of counter fraud work: <ul style="list-style-type: none"> • prevention • detection • investigation • sanctions, and • redress. 	The Counter Fraud Work Plan covers these areas suggested by the Standard.		No further action required.
25	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	The Council has in place a Counter Fraud and Corruption Policy which details roles and responsibilities for managing fraud risks.		No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
26	Asset recovery and civil recovery is considered in all cases.	In the event of fraud being identified, the opportunities for criminal sanctions, civil recovery and disciplinary action will be discussed with Management.		No further action required.
27	There is a zero-tolerance approach to fraud and corruption which is always reported to committee.	The Counter Fraud and Corruption Policy outlines a zero-tolerance stance against fraud. All allegations received have been investigated as appropriate. A summary of allegations is presented to the Audit and Risk Committee as part of the Internal Audit Annual Outturn Report.		No further action required.
28	There is a programme of proactive counter fraud work which covers risks identified in assessment.	A Counter Fraud Work Plan is in place based on the risks identified in the fraud risk assessment and the annual internal audit planning process. This may evolve based on emerging risks and changing priorities of the Council in year.		No further action required.
29	The counter - fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.	The Audit Manager - Fraud works with the Police, the Cabinet Office (for NFI) and networks with neighbouring County Councils and District Councils to share best practice via the MCCIAG Fraud Sub-Group, Staffordshire Counter Fraud Partnership, and West Midlands Fraud Group.		No further action required.
30	The local authority shares data across its own departments and between other enforcement agencies.	The Internal Audit team has access to multiple data sources. Internally there is a developing programme of CCM. Also, the Council participates in the National Fraud Initiative. Where appropriate, Internal Audit would facilitate the sharing of information both internally and externally (e.g. Police and DWP).		No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
31	Prevention measures and projects are undertaken using data analytics where possible.	Proactive fraud exercises have used data analytics for targeted sampling of transactions. Use of data is considered for all audits and counter fraud proactive and reactive work.		Opportunities to improve and expand CCM will remain under consideration as emerging risks are identified.
32	The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.	The Audit Manager – Fraud is in regular contact with the NAFN Data and Intelligence Service. The Audit Manager – Fraud is also a member of the Midlands County Councils’ Internal Audit Group - Fraud Sub-Group, Staffordshire Counter Fraud Partnership, and the West Midlands Fraud Group.		No further action needed.
33	The counter fraud team has access to the FFCL regional network.	The Audit Manager - Fraud continues to network with other fraud professionals via the channels noted in response to Standards 29 & 32 (see above).		No further action required.
34	There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work, they too must be trained in this area.	The Audit Manager - Fraud is an Accredited Counter Fraud Specialist.		No further action required.
35	The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.	The Internal Audit Team has a wide range of experience across local Government with over 100 years of audit experience. South Staffordshire Council has access to this team as part of the contract arrangements in place.		No further action required.

Ref	FFCL Standard	Related Activity	Rating	Areas for development
36	<p>The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for:</p> <ul style="list-style-type: none"> • surveillance • computer forensics • asset recovery • financial investigations. 	<p>No formal arrangements are in place. Reliance would be placed on the engagement of the Police or specialist staff procured from existing framework contracts should the need arise.</p> <p>The need to create a formalised partnership or similar for these roles is subject to ongoing consideration, although it is not seen as necessary at this time.</p> <p>Suppliers on existing Internal Audit Framework Contracts can provide these services if needed.</p>		No further action required.
37	<p>Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.</p>	<p>All investigations and proactive exercises that identify system weaknesses would result in recommendations being raised, agreed with management and reported to the Audit and Risk Committee.</p>		No further action required.

Disclaimer

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. SCC neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

South Staffordshire Council audit plan

Year ending 31 March 2023

South Staffordshire Council
June 2023

Contents



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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Financial outlook

The Council continues to operate in an uncertain and challenging environment, balancing service delivery against the impact of its decisions on the citizens of South Staffordshire, Council staff and their families.

Despite of this the Councils financial position remains positive. The latest MTFS presented to Cabinet in January 2023 presents a balanced budget for a four-year period to 2026-27. General Reserves are forecast to remain above minimum levels (set at £1.5m) until partway through the 2026/27 financial year.

Key matters



Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Corporate Director of Finance and resources.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We reported our 2021/22 Audit Findings Report to the November 2022 Audit and Risk Committee. We did not report any recommendations to the Council as part of this report.
- We presented our 2021/22 Auditors Annual Report to the February 2023 Audit and Risk Committee. We raised four improvement recommendations as part of this report which will be followed up as Part of the audit process,
- We will continue to provide you and your Audit and Risk Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Sector updates

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of South Staffordshire Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of South Staffordshire Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance Corporate Governance Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. 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 audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of Land and Buildings
- Valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1m (PY £900k) for the for the Council, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

Clearly trivial has been set at £50k (PY £45k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money is ongoing. We will report the results of the initial risk assessment once our work is complete.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

Our work on the Council's IT systems and business processes is ongoing at the time of writing this report, this includes consideration of the Capita data issue reported in March 2023. Should our work identify any changes to the proposed audit strategy we will report to management and the Audit and Risk Committee.

Audit logistics

Our final accounts visit will start in July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £61,521 [PY£57,170] the Council, subject to the Council delivering a good set of financial statements and working papers..

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Council revalue its land and buildings on five-yearly intervals.</p> <p>Assets were subject to a full valuation in 2019/20. In the intervening years, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority carries out a desktop revaluation/requests a desktop valuation from its valuation expert to ensure that there is no material difference.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£41.3m at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage an independent auditor's expert valuer to provide a further review of the reasonableness of the assumptions and approach taken by the Council's valuer • test a sample of valuations at 31 March 2023 to understand the information and assumptions used in arriving at any revised valuations. • test revaluations made during the year to see if they had been input correctly into the Council's asset register

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund liability is considered a significant estimate due to the size of the numbers involved (£30.65m as at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatements.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 [the Act].
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

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 this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1m (PY: £900k), which equates to 2% of your draft gross expenditure for the period.	We determine planning materiality in order to: <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. <ul style="list-style-type: none"> – We identified senior management remuneration as a sensitive item and set a lower materiality of £16,500 for testing these items

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	Other communications relating to materiality we will report to the Audit and Risk Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50k (PY £45k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Committee to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office –issued its latest Value for Money guidance –to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body’s arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Our risk assessment procedures in relation to the Council’s Valuer for Money arrangements is ongoing. We will report the outcome of our risk assessment once work is complete.

Audit logistics and team



Avtar Sohal, Key Audit Partner

Avtar leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained with a commitment to add value to the Council.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.



Mary Wren, Senior Audit Manager

As the engagement manager, Mary is responsible for overseeing delivery of our service and managing the audit process in respect of the Council. She will be in hand to answer any queries, whilst ensuring an efficient audit process.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017 PSAA awarded a contract of audit for South Staffordshire Council to begin with effect from 2018/19. The fee agreed in the contract was £62,252 (scale fee). Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing and any impact on the audit fee. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

Audit fees

	Proposed Fee 2021/22	Proposed fee 2022/23
South Staffordshire Council - Total audit fees (excluding VAT)	£57,170	£61,521

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

22/23 Scale fee published by PSAA	£43,171
Additional work on Value for Money (VfM) under NAO Code	£9,000
Increased audit requirements of revised ISAs 540	£2,100
Increased work on Payroll Change of Circumstances	£500
Increased work on Collection Fund – Relief Testing	£750
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Additional requirements under ISA 315	£3,000
Proposed fee	£61,521

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

At the date of this report Grant Thornton have not been engaged to provide any other services in relation to the 2022/23 financial year. We are in discussion as to whether you wish is to undertake the review of the Housing Benefit return.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
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	•	•	
Significant matters in relation to going concern	•	•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	Respective responsibilities
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	



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

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between 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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