

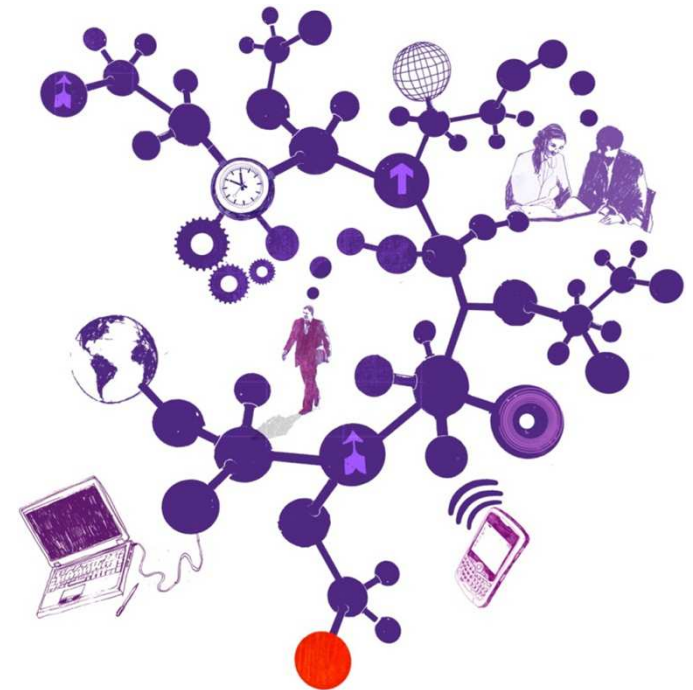


# Grant Thornton

# Informing the audit risk assessment

## Enquiries of Management and Those Charged With Governance at Stockport MBC

**Year ended 31 March 2017**



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

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# Purpose

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

## Background

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

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

## Communication

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

- Preparation of the Financial Statements
- Fraud
- Laws and regulations
- Going concern
- Related party transactions
- Accounting estimates.

This report includes a series of questions on each area with provision for responses from both management and the Audit Committee. We suggest that Management should complete the relevant sections before submitting these responses to the Audit Committee. The Audit Committee should consider whether these responses are consistent with its understanding, before completing the relevant sections applicable to them.

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# Presentation of Financial Statements

## Issue

### Presentation of the Financial Statements

The Borough Treasurer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). The *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including group financial statements where a local authority has material interests in subsidiaries, associates or joint ventures.

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance.

In preparing the Statement of Accounts, the Borough Treasurer should:

- select suitable accounting policies and then apply them consistently;
- made judgements and estimates that are reasonable and prudent;
- comply with the Code of Practice;
- keep proper accounting records which are up to date;
- take reasonable steps for the prevention and detection of fraud and other irregularities.

# Presentation of Financial Statements

Question	Management response
What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016/17?	<p>The following key events/issues will impact on the Council's 2016/17 Financial Statements:</p> <ul style="list-style-type: none"> <li>- Accounting Treatment of the Stockport Phase 2 Hotel and Office Block including asset valuation and lease arrangements;</li> <li>- Merseyway Shopping Centre valuation and lease arrangements;</li> <li>- Increase in the social housing discount factor used to value Council Dwellings; and</li> <li>- Changes to the presentation of the Financial Statements to include the Expenditure Funding Analysis (EFA) instead of SERCOP.</li> </ul>
Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>Yes, a review of the Council's accounting policies has been completed prior to the 2016/17 year end. The accounting policies were presented and approved by the Council's Audit Committee at its meeting on 15 March 2017. The key event/issues detailed above have been considered within this review.</p> <p>There have been no events or transactions that have given cause to change or adopt new accounting policies.</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?  How does the Council ensure all applicable legal and regulatory requirements have been identified?	<p>The Council has an agreed Constitution setting out how decisions are taken within the legal and regulatory framework. Regular reports are prepared and presented to Cabinet (the Council's decision making body).</p> <p>At the audit level, Internal Audit will review whether the Council has arrangements in place to identify the necessary legal and framework and appropriate steps have been taken to consider the risks. Specific training is organised where appropriate by relevant teams including Legal Services.</p>

# Presentation of Financial Statements

Question	Management response
How would you assess the quality of the Council's internal control processes?	<p>Robust. We have a strong and experienced Internal Audit and Risk service that delivers an annual Risk Based Internal Audit Plan. The yearly plan is approved by Corporate Leadership Team and the Audit Committee. Furthermore, the plan is risk assessed on a regular basis and updated if the risk environment changes. We also have a Corporate Governance Group that meets on a quarterly basis to discuss issues around the Council's internal control processes.</p> <p>Regular Internal Audit Progress is presented at all Audit Committee meetings and all members have an opportunity to question and challenge the internal control environment of all audit reviews covered in that period. Furthermore additional Audit Committee meetings are now held on a regular basis on high risk areas (e.g. Highways Investment Programme and Stockport Together), which allows for more detailed discussion on the internal controls processes within chosen areas. Grant Thornton are invited to these.</p>
How would you assess the process for reviewing the effectiveness of internal control?	<p>The Internal Audit and Risk Manager produces an annual report giving an independent opinion on the effectiveness of the system of internal control. Any weaknesses will be highlighted in this report and will subsequently be addressed. The report is discussed at Corporate Leadership Team and then approved by the Audit Committee. Ongoing progress reports are provided at each Audit Committee.</p> <p>The Corporate Governance Group meets on a quarterly basis and discussions around governance, risk, control and audit are undertaken.</p>
How do the Council's risk management processes link to financial reporting?	<p>Quarterly performance and financial reports (PPRR's) also report on major risks and risk management. Also, as above, the Council has robust internal control processes and the processes are based on an annual risk based internal audit plan. These control processes and independent reporting help ensure the integrity of the Council's various functions and processes giving assurance when putting together the statement of accounts.</p>
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>The risk based audit plan sets out what are considered high, medium and low risk areas. Underpinning the plan is a separate Fraud Risk Plan which assesses all activities of the Council at potential risk of fraud. Traditionally services such as Personal Budgets fall under the high risk categories. However, we now include proactive counter fraud activities, for example, the blue badge service which was reviewed in the period. Moving forward continuous audit routines using data matching techniques are being developed to help identify possible areas of fraud related activity. This is in key high risk areas such as payroll, procurement, payments and housing benefits.</p>

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# Presentation of Financial Statements

Question	Management response
Is there any use of financial instruments, including derivatives?	Yes, straightforward financial instruments are used, for example, money market transactions.
Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Municipal Mutual Insurance (MMI). Pensions. GM Loans Fund.
What is the current position of those issues included as contingencies and provisions at 31 March 2015?	These are being assessed but do not anticipate any major changes from previous years.
Are you aware of any significant transactions outside the normal course of business?	We are not aware of any transactions.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
Are you aware of any guarantee contracts?	We are not aware of any guarantee contracts.



# Fraud

## Issue

### Matters in relation to fraud

ISA (UK&I) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit 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 Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

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

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

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

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit 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 provision for responses to inform both auditor's and those charged with governance.

# Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>What are the results of this process?</p>	<p>Yes as part of the annual internal audit planning process a separate fraud risk assessment is undertaken. All key financial systems are audited on a regular basis and cover areas including the risk of fraud and error.</p> <p>There are no issues from the work undertaken in 2016/17 that indicate there is a material misstatement to the financial statements.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has clear policies relating to fraud including a combined Anti-Fraud, Bribery &amp; Corruption Strategy/Policy. These were reviewed in November 2016. This is supported by a range of supplementary documents including Responsibilities in relation to Fraud and the Fraud &amp; Irregularity Response Procedure. The Anti Money Laundering Policy and the Whistleblowing Policy also support the process. This provides clarity to all stakeholders of Stockport on how to report a suspected fraud or irregularity and the responsibilities of all stakeholders in relation to suspected fraud. This has been supplemented by fraud awareness training provided to members and targeted officers within high risk areas of the Council. The Fraud and Irregularities Panel formally meet to discuss all potential fraud cases and provide direction on appropriate actions. The Internal Audit, Risk and Insurance service now has a Counter Fraud Officer who identifies and responds to suspected cases of fraud, in addition to the delivery of an Annual Fraud Panel which is risk assessed annually.</p> <p>The Annual Planning process involves a Fraud Risk Plan to determine the high risk fraud areas of the Council. These are then included in the plan for audit.</p> <p>Internal Audit are a member of the North West Anti-Fraud Group, a sub group of the NW Chief Audit Executives Group.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>As part of the audit planning process a fraud risk assessment is undertaken and key high level risks are included in the Plan to deliver throughout the year. We identified an issue of fraud risk within the area of blue badges. We have now assisted Parking Services to develop a robust process to identifying potential fraudulent badges from April 2017. This has been discussed with Place Directorate management and members within that Portfolio.</p>

# Fraud risk assessment

Question	Management response
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p> <p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Yes. There are issues identified in the operation of some systems which have been highlighted in reports to the Audit Committee.</p> <p>Where appropriate extra testing has been carried out by both internal and external audit due to known issues on processes to provide extra assurance. Detailed Action Plans are in place subject to regular follow up to improve processes for issues included in the Annual Governance Statement.</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)?</p>	<p>This risk is low due to the automated nature of the accounting systems. Reconciliations are undertaken on a regular basis.</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>As stated above, financial reporting is highly automated and supported by formal and regular reconciliations which are reviewed by Internal Audit as part of its review of the main financial systems.</p>

# Fraud risk assessment

Question	Management response
What arrangements are in place to report fraud issues and risks to the Audit Committee?	<p>The Chair and Vice Chair attend pre-audit meetings with the Internal Audit and Risk Manager on a quarterly basis. Issues, concerns and ongoing investigations around fraud risks are discussed as part of this process.</p> <p>The Committee discuss and approve an Annual Fraud Report that highlights the findings of all anti fraud work throughout the Council in the previous financial year.</p> <p>Regular updates are received from the National Anti-Fraud Network (NAFN) and are subsequently forwarded to key stakeholders within the organisation. Fraud risk issues are discussed at the quarterly Corporate Governance Group and at quarterly Senior Management Team Audit Update Meetings. Change proposals within the Council are risk assessed and risk is embedded within project management techniques. Internal Audit provides ongoing assurance on key risks within key projects. All relevant findings are presented to the Audit Committee.</p> <p>There have been no reports made under the Bribery Act.</p>
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<p>The staff Code of Conduct forms part of the Council Constitution (Part 5, Section CP2 - Codes &amp; Protocol). This is displayed on the Council intranet site. There are specific sections relating to gifts and hospitality, personal interests, dignity at work, conduct, political neutrality, customer care, security, working with elected members, hospitality and sponsorship, to name a few. The Code is part of the staff induction process.</p>
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<p>The Counter Fraud Officer undertakes regular fraud workshops to educate staff on fraud awareness. The Council operates a Whistleblowing Policy which is updated regularly. No significant issues have been reported.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No.

# Fraud risk assessment

Question	Audit Committee response
<p>Are you aware of any instances of actual, suspected or alleged, fraud, within the Council since 1 April 2015?</p>	<p>From April 2016, there has been one instance of suspected fraud relating to an external organisation. This is currently under review and regular updates have been provided to the Fraud &amp; Irregularity Panel and external advice from Greater Manchester police and our external solicitors. The Borough Treasurer, Chair of Audit Committee and External Audit are aware of this fraud and we are satisfied that there is no material impact on the financial statements.</p>
<p>How does the Audit Committee oversee management's processes for:</p> <ul style="list-style-type: none"> <li>• carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error</li> <li>• identifying and responding to the risk of breaches of internal control</li> <li>• identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)</li> <li>• communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?</li> </ul>	<p>The committee receive regular training on all audit development matters and this includes fraud risks. This includes an overview of whistleblowing and anti-fraud updates, facilitated by the Internal Audit and Risk Manager.</p> <p>The Audit Committee discuss and approve the Annual Audit Plan which contains a section on anti-fraud work. The risk based Audit Plan sets out what are considered high, medium and low risk areas. Underpinning the plan is a separate Fraud Risk Plan which assesses all activities of the Council at potential risk of fraud.</p> <p>All updates to procedures relating to fraud are discussed and approved by Audit Committee.</p> <p>Findings of specific fraud audits are reported and follow up work is reported to the Committee. If the Committee is not satisfied with any aspect of a report involving a fraud risk then the manager responsible for that area would be requested to attend a future Committee and questioned directly by all members.</p>
<p>Has the Audit Committee considered the risk of material misstatements (misreporting) by management?</p>	<p>Yes. The Audit Committee will consider the draft Statement of Accounts at its meeting on 5 July 2017 (Audit Committee training). The Audit Committee will have time to review the draft accounts and the external audit finding prior to approving the final Statement of Accounts on 19 July 2017.</p>
<p>What is the Audit Committee's assessment of the impact of misappropriation of assets on the statements?</p>	<p>There were no material misstatements/errors found in the Council's 2015/16 Statement of Accounts. For the 2016/17 Statement of Accounts, the Audit Committee will make an assessment based upon the external audit findings.</p>

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# Laws and regulations

## Issue

### Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with provision for management's response to inform both auditor's and those charged with governance.

# Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations (incl accounting standards and corporate governance requirements)?	<p>The Council has an agreed Constitution setting out how decisions are taken within the legal framework. All reports to the Council's Cabinet and Cabinet Members include the requirement to have appropriate comments from Statutory Officers setting out the legal, financial and risk implications.</p> <p>The Local Code of Governance is reviewed on an annual basis. The Annual Governance Statement is updated on a yearly basis and an Action Plan produced. This follows the completion of governance self assessment checklists by all directorates. The Action Plan is updated on a quarterly basis and discussed at Corporate Governance Group and Audit Committee. Furthermore, all future reports to the Executive are reviewed by legal and Finance.</p> <p>We are not aware of any issues of non-compliance with laws or regulations.</p>
How does management gain assurance that all relevant laws, regulations and standards have been complied with?	As above.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015, or earlier with an on-going impact on the 2015/16 financial statements?	No issues have been identified since this date.

# Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>The Council has an in-house insurance service that is managed by the Internal Audit and Risk Manager. All claims are logged via an online portal. Claims under £25k are handled in-house by a Claims Handler in conjunction with a team of inspectors. Claims over £25k are managed externally, as specified in the insurance contract. All claims are logged on the LACHS system. A yearly actuary review is undertaken to ensure that the Insurance Fund is financially robust. An Annual Insurance Report is presented to the members of the Corporate and Resource Management group. The Internal Audit &amp; Risk Manager meets the Monitoring Officer on a quarterly basis and this area is discussed.</p> <p>The Council follows the CIPFA Code and will create a provision for litigation and claims where there is a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If these conditions are not met, then no provision is recognised but the Council will consider whether a reserve or a contingent asset/liability should be included in the accounts.</p>
Is there any actual or potential litigation or claims that would affect the financial statements?	From an insurance viewpoint, an annual independent Actuarial Review is undertaken to review and estimate the value of outstanding current and future claims.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.



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## Impact of Laws and regulations

Question	Audit Committee response
How is the Audit Committee provided with assurance that all relevant laws, standards, requirements and regulations have been complied with?	Any issues raised from the Annual Governance process will be discussed at Audit Committee. Any issues identified during the course of the year would be identified in the Head of Internal Audit Annual Report and Opinion.
Is the Audit Committee aware of any non-compliance with relevant laws, standards, requirements and regulations?	No. There have not been any issues brought to the attention of the Audit Committee.
If there have been instances of non-compliance, what oversight has the Audit Committee had to ensure that actions are taken by management to address any gaps in control?	Any instances would identify the issues and the agreed mitigating actions with Management.
Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?	The Audit Committee is not aware of any actual or potential claims that would affect the financial statements.

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# Going Concern

## Issue

### Matters in relation to Going Concern

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

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

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below with provision for management's response to inform both auditor's and those charged with governance.

# Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	<p>Yes. Effective financial management and control of the Council's budgets and resources through budget monitoring and reporting during the year overseen by the Borough Treasurer. This has meant budget saving requirements have been met and adequate resources are available to address the significant financial challenges ahead.</p> <p>The Council's Medium Term Financial Plan covers a 5 year period 2017/18 to 2021/22 and was approved alongside the 2017/18 budget at the Council meeting on 23 February 2017. Included with this was the Borough Treasures statement on the Adequacy of the Proposed Financial Reserves and Robustness of the (budget) Estimates.</p>
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	Yes through the Council's Medium Term Financial Plan 2017/18 to 2021/22. The forecast and assumptions within this Plan are reviewed on an annual basis and considered throughout the budget setting process.
Are arrangements in place to report the going concern assessment to the Audit Committee?	The Finance team produce regular reports which are reported to members. These include reports on Treasury Management, Earmarked Reserves and discussions around the balance sheet as part of the Final Accounts process.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Business Plan and the financial information provided to throughout the year?	Yes – see above.
Are the implications of statutory or policy changes appropriately reflected in the Business Plans, financial forecasts and report on going concern?	Yes – see above.

# Going Concern Considerations

Question	Management response
<p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No significant issues have been raised with the Audit Committee or identified in the latest Annual Governance Statement.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?</p>	<p>No adverse financial indicators have been identified. Revenue budgets and the Capital Programme are monitored through out the year on a quarterly basis. Progress reports are presented to the Council's Executive and the relevant Scrutiny Committees. In addition the Council's Treasury Management performance is reported to the Executive and the Corporate and Resources Management and Governance Scrutiny Committee on a quarterly basis.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?</p>	<p>Yes. Performance against the Council's objectives is regularly monitored and reported on within the quarterly Portfolio Performance and Resources Reports.</p>
<p>How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in the preparation of the financial statements?</p>	<p>The Audit Committee considers the Council's Accounting Policies prior to the completion of the Statement of Accounts. The Audit Committee also considers the draft Statement of Accounts prior to approval which include the assumptions, estimate and judgements to support the reported outturn position.</p>

# Related parties

## Issue

### Matters in relation to related parties

ISA(UK&I) 550 covers auditor responsibilities relating to related party transactions.

Many related party transactions are in the normal course of business and may not carry a higher risk of material misstatement. However in some circumstances the nature of the relationships and transaction may give rise to higher risks.

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: related party disclosures. The Code identifies the following as related parties to local government bodies: entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries) associates

- joint ventures in which the Council is a venturer
- an entity that has an interest in the Council that gives it significant influence over the Council
- key officers, and close members of the family of key officers
- post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

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

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Party Considerations

Question	Management response
Who are the Council's Related Parties?	<ul style="list-style-type: none"><li>- Central Government</li><li>- Elected Members</li><li>- Council Officers</li><li>- Other Public Bodies to whom the Council transacts with – i.e. levies and precepts. (Levy bodies and other entities are subject to a separate external audit process).</li><li>- Other Entities Controlled of Significantly Influence by the Council – entities included in the Council's group boundary</li></ul>
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	<ul style="list-style-type: none"><li>- Separate disclosure on related parties within the Councils Statement of Accounts</li><li>- Members Register of Interests</li><li>- Members Allowances – disclosed in the Council's Statement of Accounts</li><li>- Officers Remuneration – disclosed in the Council's Statement of Accounts</li><li>- Recording of gifts and hospitality received by Council Officers</li><li>- Members code of conduct</li><li>- Officers code of conduct</li></ul>

# Estimates

## Issue

### Matters in relation to Accounting Estimates

Local authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates.

The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

We need to obtain an understanding of:

- how management identifies the transactions, events and conditions that give rise to the need for an accounting estimate.
- how management actually make the estimates, including the control procedures in place to minimise the risk of misstatement.

We need to be aware of all estimates that the Council is using as part of its accounts preparation. These are set out overleaf. The audit procedures we conduct on the accounting estimate will demonstrate that:

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

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## Estimate considerations

Question	Management response
Is management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	Yes. The estimates and judgements used to produce the Council's Statement of Accounts are disclosed.
Are the management arrangements for the accounting estimates, set out on the following pages reasonable?	Yes. They are scrutinised by the Audit Committee as part of their approval of the Council's Statement Accounts.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	The Audit Committee has two opportunities to review the estimates and judgements used to produce the Council Statement of Accounts; Draft Audit Committee and Final Approval Audit Committee.



# Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions: <ul style="list-style-type: none"> <li>assessment of degree of uncertainty</li> <li>consideration of alternative estimates</li> </ul>	Change in accounting method in year?
Property Plant and Equipment Valuations	Assets with a useful (operational) life greater than 1 year are capitalised at cost.	Accounting Policies approved by Audit Committee prior to the production of the accounts.	- Qualified Finance Staff	De-minimis applied; capital expenditure over £10,000 is capitalised. Desk top review of DRC PPE valuations at year end.	No.
Depreciation and amortisation	Allocation of the depreciable amounts (annual use) of an asset over its useful life.	Accounting Policies approved by Audit Committee prior to the production of the accounts.	- Qualified Finance Staff	HRA component depreciation detailed calculations. Prudent based on asset life.	No.
Estimated remaining useful lives of PPE	Asset valuation reports provide the asset useful lives.	Valuation reports.	- Professional valuers	- Valuers professional judgement. - Assumption that asset repair and maintenance spend maintained thus maintaining useful life.	No.
Impairments	Asset valuation programme which includes an annual impairment review.	Accounting Policies approved by Audit Committee prior to the production of the accounts.	- Qualified Valuers - CIPFA - Qualified Finance Staff	- Impairments are recognised in the Statement of Accounts.	No.
Investment held for Sale – MAG shareholding	Agreed approach across GM shareholders.	Approach agreed at GM level.	- BDO Stoy Hayward	- Valuation is earnings based - Valuation is subject to an annual review	No.

# Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions: <ul style="list-style-type: none"> <li>assessment of degree of uncertainty</li> <li>consideration of alternative estimates</li> </ul>	Change in accounting method in year?
Bad Debt Provision	Internal review following production of the outstanding debt analysis at the year end.	Review of outstanding debt.	- Qualified Finance Staff	- Professional decisions made. - Economic climate informs assumptions and ensures they are robust.	No.
Provisions	Internal review.	Review of outstanding Legal and Insurance Claims.	- Actuarial valuation of the insurance provision required - Qualified Finance Staff	- The annual actuary review uses the Chain Ladder actuarial method for forecasting ultimate mature loss levels from the last available data point for a given risk and year. - The Chain Ladder method is applied to the progression of incurred losses, plotted at annual intervals. - Exact liability cannot be quantified at the time that the estimates were prepared.	No.
Accruals	Income and Expenditure is accounted for in the period it relates to.	Process for identifying accruals (including inter-company) at year end).	- Qualified Finance Staff	Detail provided by budget holders/service managers which is subject to validation by Finance before being input in to the ledger.	No.
Finance Lease Liabilities	Liabilities are accounted for in line with the CIPFA Code of Practice and disclosed within the Council's Statement of Accounts.	Assessment of lease agreements.	- Qualified Finance Staff	- Finance lease classification determined in accordance with professional accounting advice in 2013/14 (PWC), in relation to the multi storey car park at Stockport Exchange.	No.

# Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions: <ul style="list-style-type: none"> <li>assessment of degree of uncertainty</li> <li>consideration of alternative estimates</li> </ul>	Change in accounting method in year?
Pension Liability	<p>The Local Government Pension Scheme is disclosed within the Council's Statements of Accounts.</p> <p>Disclosures on the NHS and Teachers Pension Schemes are included in the Council's Statement of Accounts.</p>	<p>Hymans Robertson LLP Actuarial Valuation.</p> <p>Financial Ledger for the defined contribution schemes.</p>	- Hymans Robertson LLP	<p>The Council's Statement of Accounts are based on the year end actuarial report.</p> <p>Teachers Pension Scheme contributions are subject to a separate audit process.</p>	No.
Non adjusting events – events after the balance sheet date	Professional judgement used as at the date the Council's Statement of Accounts are provided to the External Auditors.	Professional judgement.	- Qualified Finance Staff	- Assumptions made will not change when the Council's Statement of Accounts are audited and signed off.	No.



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