



Informing the audit risk assessment for South Somerset District Council 2020/21

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external 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), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) 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 Council's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit 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 2020/21?</p>	<p>The biggest financial and risk pressure of 2020/21 has been the Covid-19 pandemic. This has had significant impact on our finances; our deployment of staff and; has led to us refocusing our priorities to support our communities. We have received significant grants from Central Government to support our response to the pandemic. We have tracked the spend in relation to these grants and completed Government returns accordingly. We have also administered several millions of pounds in grants to businesses, through a number of schemes. Some of these have been complex and some have been discretionary and as such, a fraud risk.</p> <p>The NHS business rates claim which we had flagged last year has finally been settled. The NHS lost their claim and the LGA, acting on behalf of the local authorities have been able to reclaim costs. This risk has therefore been extinguished.</p> <p>Our commercial property acquisitions continue to be significant and we have made several during 2020/21.</p> <p>Due to the volatility of business rates in this challenging year, the profitability of the business rates pool has been brought into question. We are confident this will still show a surplus but we hold a mitigating reserve should it not deliver.</p>
<p>2. 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>	<p>There have been no material changes to accounting policies in 2020/21. They however have been reviewed for appropriateness.</p> <p>Policies have also been considered and a temporary scheme of delegation change was made to enable the Chief Executive and Leader to take emergency decisions.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>SSDC use financial instruments but do not use derivatives.</p>

General Enquiries of Management

Question	Management response
4. Are you aware of any significant transaction outside the normal course of business?	No
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	It will be important to review the valuations in certain areas such as car parks in light of the impact of the pandemic on trading. We have not yet received the latest valuations from our in-house valuers so are not aware of any material impairments at this point. It is notable that our Commercial rent collection, despite the pandemic, has seen c98% collected.. This would suggest that no material impairments would be necessary in relation to this (due to the pandemic). There may of course be other factors, such as a change in the lease agreement, a re-profiling of payments etc which will be taken into account by the valuers.
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council uses a mix of in-house and external solicitors for its legal advice. During 2020/21 external legal advice (largely in relation to commercial investment purchases) has been obtained from: Tozers; Burges Salmon; Veale Wasborough; Shoosmiths; Pardoes; Ashfords; Moore Blatch; Steele Raymond; Stephens Scown; Thompsons; Porter Dodson; Battens; Clarke Willmott and Monaco Solicitors.
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Yes – We are aware of a “phishing” type fraud whereby one of our suppliers had their email account compromised and a payment was subsequently made to an incorrect account operated by fraudsters. We have reported this to the Police; Action Fraud; the Leader and Deputy Leader; CEO; Chair of Audit and Internal Audit. The case is ongoing.

General Enquiries of Management

Question	Management response
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council has used a range of advisors during 2020/21: Arlingclose – Treasury Advisors; PS Tax – VAT and other taxation advice; Luciel Ltd – Council Plan; RPT Consulting – Leisure contract procurement; CIPFA – various; King and Shaxton – Treasury; Martin Brokers – Brokerage; Tradition (UK) Ltd – Treasury; Zurich Municipal – Insurance; Heritage and Leisure Mgt – Leisure contract; Marsh Ltd – Insurance; Colliers Intl Property Consultants – Lease advisory, rent review Quartz suite; Ashbrook Associates -

Fraud

Issue

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 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 the 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 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 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 responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have the 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>Yes. Budgetholders monitor spend and income. These budgets are also reviewed by the council's finance specialists as part of budget monitoring which includes looking for any possible fraudulent activity.</p> <p>Fraud is also assessed as part of the Internal Audit Plan. The Audit Committee approves the risk-based annual audit plan (constructed by SWAP, SLT and S151) and prepares audits to consider possible areas where fraud may be a risk.</p> <p>The Authority has a Fraud Strategy that is approved, monitored and reported through the Audit Committee. The Council also employs an Enforcement Officer within the various service areas who undertakes work to tackle abuse of public funds.</p> <p>All reports to District Executive include a double risk matrix to ensure that Members are aware of the financial risks of making a decision. All capital bids outline risks and how those risks can be mitigated.</p> <p>The annual budget is risk assessed and reported, and then monitored as part of the revenue and capital budget monitoring process. Key projects will include financial risks as appropriate.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>It is considered that cash, contract and benefits/tax reliefs are most likely areas of risks in most years. During the pandemic, we have been administering additional benefits and grants and these have added to the risk profile.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No. SLT is responsible for Corporate Governance. SLT comprises the CEO; Directors; S151 Officer and Monitoring Officer. The SWAP Assistant Director is invited to SLT on a quarterly basis to discuss and report on governance and risk issues including the audit plan progress. All audit reports are taken to SLT for discussion. The CEO; S151 and MO also meet regularly with Grant Thornton. The Annual Governance Statement is reported to SLT and Audit Committee outlining any serious breaches. The S151 Officer oversees the support to Audit Committee undertaken by one of the Council's Finance Specialists. A regular Risk Management update is provided to Audit Committee.</p>
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>No No Westlands and the Octagon where there are high volumes of cash transactions could be deemed higher risks (in normal trading circumstances) but controls are in place to manage this.</p>
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>SSDC is committed to operating in ways which make fraud more difficult to commit, more likely to be detected, and more certain to be punished. Accordingly, the Fraud and Data team work to solidify the Council's counter fraud culture through preventative initiatives such as organising counter fraud audits, and producing documents designed to reduce exposure to fraud. One such document is the "SSDC counter Fraud, Theft and Bribery Strategy. It is the centrepiece of the Council's counter fraud framework, and explicitly sets out the arrangements that are in place for deterring, preventing, detecting and punishing all forms of fraud which could affect the Council's finance and assets.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the 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)?</p>	<p>Budgets are operated under strict delegations in the operating model. Lead Specialists and Specialists monitor the budgets but do not have budget responsibility. The Finance specialists work closely with the budgetholders analysing large value transactions. Managers are responsible for signing off individual's travel etc.</p> <p>There remains a separation of duties between the Specialists and Case Officer posts which are monitored as part of the controls audited by SWAP. Many of the processes are system controlled, particularly in relation to the financial transactions.</p> <p>Key areas of risks are agreed as part of the internal audit plan.</p> <p>Reliance on audit reports and the Annual Governance Statement which includes officer annual declarations which cover internal control. Internal Audit provide a cyclical effectiveness review which will be reported to the Audit Committee.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Finance Specialists work closely with budgetholders on analysing financial transactions within the financial statements. All Finance Specialists behave with integrity, demonstrate string commitment to ethical values and respect the rule of law. It would be naive to imagine that it would not be possible but there would have to be collusion and there re controls to prevent monies "leaving the building".</p>

Fraud risk assessment

Question	Management response
<p>8. How do the 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?</p> <p>Have any significant issues been reported?</p>	<p>SSDC Code of Conduct and other policies are all held on the staff portal for all staff to view. An essential part of an effective counter fraud culture is ensuring that all personnel affiliated with the work of the Council abide by the Counter Fraud policies in place. As part of this, it is vital that all personnel know the appropriate way to disclose a suspicion of misconduct, whether it involves staff, members, contractors or third parties. The Council's former Counter Fraud Policy and Whistleblowing Policy has been reviewed. This ensures that both the appropriate reporting channels and the authorities involved in dealing with the allegations are known to all.</p> <p>Each Member and officer of the Council is responsible for countering fraud to safeguard corporate standards, meaning that everyone affiliated with SSDC has a duty to ensure:</p> <ul style="list-style-type: none"> • their own behaviour is beyond reproach and in accordance with best practice • they follow all policies, procedures and controls laid down to prevent, detect, investigate and punish fraud, according to the Council's Constitution • they report to the appropriate officer any instance where they suspect, or are aware of any person(s) behaving improperly, as well as communicating any reasonable suspicions they may have that the Council's systems may be open to fraud or abuse of another kind. <p>As part of this, it is vital that all personnel know the appropriate way to disclose a suspicion of misconduct, whether it involves staff, members, contractors or third parties. All employees are periodically reminded of the whistleblowing policy and all staff are expected to sign related party transaction declarations on an annual basis.</p> <p>No</p>
<p>9. 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>SLT and LMT are the higher risk posts as they have a high level of control at this level. All employees are accessed through the A&A framework, with open and honest, and trust being key components, which are measured at assessment, considered at PDP stage and even are the pillars of our recognition scheme.</p>

Fraud risk assessment

Question	Management response
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No – but the Council's constitution requires Members to declare any such interests and where appropriate withdraw. Senior decision making officers are also required to declare any related party transactions. Segregation of duties involved in transactions, and line management reporting to ensure no collusion between those people who are personally connected.</p>
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The responsibility for the investigation of actual or suspected fraud now lies with the Section 151 Officer, Monitoring Officer, and SWAP which can be reported via the Council's Whistleblowing policy. The Council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the strategic risk register (where appropriate) which is reviewed regularly by SLT. All reports to committees require financial and legal implications to be identified and include a template for financial and legal implications and risks to be identified. The Audit Committee receives regular reports from internal audit, external audit and the CFU and the responsibility for reviewing the Code of Corporate Governance, Counter Fraud and Anti-Corruption policies sits with the Audit Committee.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None received by the S151 Officer or Monitoring Officer</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None received by the S151 Officer or Monitoring Officer</p>

Law and regulations

Issue

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 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 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 the Council have in place to prevent and detect non-compliance with laws and regulations? 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>Key changes in legislation drawn to SLT attention by Statutory Officers and Specialist Team Leaders. Managers and team leaders are expected, by virtue of their job descriptions and personal professional development requirements, to keep up to date and comply with laws and regulations as they apply to their duties and those of their teams.</p> <p>Key changes in the law are considered by SLT and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared. Any potential non-compliance is reported to the District Executive and an action plan put in place. The Annual Governance Statement also identifies areas of concern and areas for improvement.</p> <p>Not aware of any significant changes to regulatory environment.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the Annual Governance Statement which identifies areas of concern and areas for improvement. In addition, each senior and service manager provides an annual assurance statement.</p> <p>In addition, training sessions are used to explain new legislation (e.g. GDPR, IR35 revision). Where the changes would have a significant impact on the Council they will appear on the corporate risk register which is available. Any accounting requirements are explained at the annual workshop to help understand the accounts.</p> <p>For any specific cases a special report is prepared for the Audit Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>The Council's legal team work with SLT and the relevant LMT Officers when any potential claims or litigation are identified; it also provides the S151 Officer with details of any litigation or claims for inclusion within the financial statements.</p> <p>The Council has a customer complaints process which aims to resolve issues before they escalate. Through its risk management procedures, there are the recording of any risks of litigation or claims either within service areas or corporately.</p> <p>The Council has processes in place to manage significant contracts any issues can be raised and managed with the aim of minimising litigation or claims. Contract performance is monitored by the use of management information including key performance indicators.</p>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

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

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council;
- associates;
- joint ventures;
- an entity 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 entity 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 the Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and the Council • whether the Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>None apart from:</p> <p>There have been a large number of grants made to businesses which may now fall into a related party scenario. These grants are either mandatory or have strict criteria for discretionary awards.</p>
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All of SLT and LMT, and any other significant officers are required to complete an annual related party disclosure form which are compiled as part of the year end financial statements. These are then reviewed by the S151 Officer and reported to SLT where necessary.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Normal controls are in place. An officer would be expected to disclose any related party transaction and then this would be checked.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>These would be drawn to the attention of the S151 Officer.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity'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 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 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>These are all disclosed in the Statement of Accounts. These include the valuation of PPE and the Pension Liability. The changes in estimation would be due to annual valuation changes or more fundamentally changes in methods of valuation e.g.. the actuaries may change their assumptions or a building may have a change of use and hence valuation method.</p> <p>The appeals provision for NNDR is updated annually with consideration to market conditions. This is done by experienced finance staff alongside revenues and economic development officers..</p>
<p>2. How does the Council’s risk management process identify and addresses risks relating to accounting estimates?</p>	<p>The Council employs professionals to verify these estimates, calling in external experts when necessary.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Through attending Technical updates from various providers the Finance Specialists stay “up to date” and are aware of any changes required to accounting estimates.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>There is an element of “reasonableness” checking by senior staff. The Council employs experienced staff who are aware of market conditions etc. Large fluctuations in, for example, valuations would be a trigger warning to valuers. Budget monitoring would also highlight trends in, for example, utility prices and usage which would inform year end estimates. These would also be used to add new pressures or savings to the estimates for budget setting.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The close down process is looked at “afresh” each year to capture changing circumstances and economic climate. We have experienced staff to undertake these estimates and their knowledge is kept up to date.
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?	These are reviewed by the S151 Officer; Deputy S151 Officer and Lead Finance Specialist each year.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	We rely on professional qualifications (e.g. RICS for our valuers). Key controls such as updating the asset register form part of our capital expenditure process. Other controls are monitored through budget setting and particularly through budget monitoring where variances are flagged and explanations required.

Accounting Estimates - General Enquiries of Management

Question	Management response
<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>These are all reviewed for reasonableness. We have qualified staff who compare previous years' trends. We have been fortunate to have a number of finance staff who have worked for the authority for some time and therefore have in-depth knowledge of the budgets. Areas such as the Pension deficit calculations are the responsibility of our actuaries and we are confident in their professionalism and expertise.</p> <p>Following a number of audit findings for 19/20 we are aware that our asset valuations have not always been accurate at the first "draft". We will therefore focus and challenge more in this areas for 20/21.</p> <p>Most methods and models for estimation are long-held and consistent across various authorities. Our finance staff attend technical updates and have networking events with other authorities where we share approaches and best practice.</p>
<p>10. Are management aware of 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)?</p>	<p>The non-domestic (NDR) appeals provision for the 2010 list has been estimated based on past experience of successful appeals and other RV reductions, and actual success rates and reductions may differ from the estimate. The process was altered from 1 April 2017 for the 2017 list. We have used the check and challenge data and professional judgement to calculate the provision in relation to the 2017 list.</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes, all the management arrangements listed are correct.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	A Financial Statements training session is held with all Members of the Audit Committee prior to the financial statements being taken to Audit Committee for approval. This same Committee have also received direct training from Arlingclose on our Treasury Investments. When the accounts are presented at Committee, we will highlight any accounting estimates and a clear explanation given where necessary.

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	Fair value for land/buildings defined as 'existing use' by the Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2020/21.	Internal valuer	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Investment property valuations	Fair value.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For Investment Property, all material assets will be considered in 2020/21.	Internal valuer. Where property has been purchased within the last 12 months, an external Red Book valuation is undertaken.	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	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?
Depreciation	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable an external valuer	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No
Valuation of defined benefit net pension fund liabilities	Use of Actuary – Barnet Waddingham	Data provided from payroll system etc	Yes	As defined by actuarial report. The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	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?
Level 2 investments	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. Interest rates or yield for similar instruments	Advice from our Treasury Advisors, Arlingclose. The control is an external valuation.	No.	Not material	No.
Level 3 investments	Fair value is determined using observable inputs e.g. Non-market data such as cash flow forecasts or estimated creditworthiness.	Advice from our Treasury Advisors, Arlingclose. The control is an external valuation.	No.	Not material	No.
Fair value estimates	For most assets, including bonds, treasury bills and shares in Money Market Fund and other pooled funds, the fair value is taken from the market price. For loans borrowed by the Council, a discounted cashflow method is used.	Advice from our Treasury Advisors, Arlingclose. The control is an external valuation.	Quoted values from source	Expert advice	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	Provisions are identified through detailed monthly management accounts which flags any potential issues to management	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A	Estimates are based on previous experience (e.g. prior period charges) or partial underlying data.	No.
Credit loss and impairment allowances	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	N/A	Estimates are based on previous experience (e.g. prior period default rates).	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	Future cashflows	As defined by contract	N/A	N/A	No.



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