

Agenda Item No: 5b
Report To: Audit Committee
Date of Meeting: 20 July 2021
Report Title: Draft Statement of Accounts
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Portfolio Holder for: Finance & ICT



Summary: The purpose of the attached report “*Informing the audit risk assessment for Ashford Borough Council 2020/21*” is to contribute towards the effective two-way communication between Ashford Borough Council’s (ABC) external auditors (Grant Thornton) and ABC’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.

The responses from the Council’s management are included within the report and the Audit Committee needs to confirm that these responses are consistent with its understanding, and if it wishes to make any further comments.

Key Decision: No

Significantly Affected Wards: NA

Recommendations: **The Audit Committee is recommended to:-**

- I. **Confirm that the management responses within the “Informing the audit risk assessment for Ashford Borough Council 2020/21” document are consistent with its understanding.**

Policy Overview: NA

Financial Implications: None

Legal Implications NA

Equalities Impact Assessment NA

Other Material Implications: None

Exempt from Publication: No

Background Papers: None

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Report Title: Draft Statement of Accounts 2020/21

Introduction and Background

1. The purpose of the attached report is to contribute towards the effective two-way communication between Ashford Borough Council's (ABC) external auditors and ABC'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.
2. 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.
3. 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.

Conclusion

4. Confirm that the management responses within the "Informing the audit risk assessment for Ashford Borough Council 2020/21" document are consistent with its understanding.

Portfolio Holders Views

5. N/a

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Informing the audit risk assessment for Ashford Borough Council 2020/21



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 Ashford Borough Council's (ABC) external auditors and ABC'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 ABC'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>2020/21 was dominated by the Covid19 Pandemic which introduced a number of national schemes to support the national economy and businesses through this challenging time. Although the pandemic has seen significant movements in service expenditure, the most pertinent in the accounts will be the significant collection fund deficit, although this is as a result of the collection fund accounting regime and not a real pressure to the organisation and funding has been transferred to reserves accordingly for the Council's Share.</p> <p>Despite original forecasts predicting a significant need for reserves to fund in year pressures emerging from additional expenditure and lost revenues due to the Covid19 Pandemic, strong government support and internal savings have allowed for these pressures to be mitigated a allow growth in reserves which will support further pressures during the recovery phase of the Pandemic.</p> <p>In September 2020 Defra informed the Council that the Sevington Inland Border Facility (IBF) is being designated a Border Control Post and that the council would become responsible for carrying out various port health controls on behalf of the government. This new responsibility required significant setup costs which have been funded from Central Government grant. Due to delays in becoming fully operational the residual amount of Government grant has been transferred to reserves to mitigate further set up costs and support income losses before the scheme becomes fully operational.</p> <p>The HRA acquired various on street properties in year as per previous years but also acquired a block of 44 units for circa £8m in November called the New Quarter which is within the Town Centre, a further 65 units at the same location have been acquired in early 2021/22.</p> <p>At the end of 2019/20 the Council's strategic investments saw a reduction of £3.67m as capital values dropped as the economic impact of Covid19, during 2020/21 the strategic investments recovered by £2.4m, having considered previous gains before the Covid19 this leaves the Council's current fair value movement roughly equal to the original investment amounts.</p>

General Enquiries of Management

Question	Management response
<p>2. Have you considered the appropriateness of the accounting policies adopted by ABC? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>The appropriateness and application of accounting policies are reviewed on an annual basis and presented to the Audit Committee accordingly. For the 2020/21 Accounts these were presented to the Audit Committee on the 16 March 2021 where no significant changes were reported.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The Council has exposure to financial instruments through its investment portfolio, loans made and borrowing which it undertakes.</p> <p>The biggest movement in 2020/21 was the recovery of strategic investment portfolio which where capital values dropped following the economic shock of Covid19. Although not recovered fully to pre Covid19 levels the Councils net position in relation to capital losses/growth is roughly back to par.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>Yes, the normal course of business was stretched in response to the Covid19 pandemic to administer significant grants etc on behalf of central government. Support packages for Leisure Operators were also introduced to support them through the pandemic, and payments to waste contractors in readiness and in response to the UK exiting of the EU. These decisions have been reported accordingly though in accordance with the Council Financial Procedure Rules. The Council also received a significant grant for setting up the new Ashford Port Authority and spent circa £500,000 in costs associated with this new activity in 2020/21.</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?	No. – There was/is a possibility that changing habits from the Pandemic could result in a drop in commercial property valuations (notably Office space) although this has not materialised in 2020/21 but will be monitored going forward.
6. Are you aware of any guarantee contracts?	The Council has entered into a lease to underwrite the lease of 2 floors of the new commercial quarter office development. This is identified in the Council's accounts under Contingent Liabilities.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	There are two current claims, one of which would impact the financial statements in the event that the Council was not successful, due to the sensitive and ongoing nature of these cases they will be discussed confidentially with our External Auditors Grant Thornton.
8. Other than in house solicitors, can you provide details of those solicitors utilised by ABC during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Internal Solicitors were used in year for several significant matters with Counsel engaged to represent. Where the Council has contingencies listed within its accounts no further legal work was undertaken on these within 2020/21. Other Solicitor firms were used to bridge capacity issues but where all involved in normal business transactions.

General Enquiries of Management

Question	Management response
9. Have any of the ABC service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Nothing Material or significantly outside the normal scope of business.

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 ABC'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 ABC's management.

Fraud risk assessment

Question	Management response
<p>1. Have ABC 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.</p> <p>The financial statements are completed within a small team and individual working papers are completed to reconcile balance sheet codes back to the key financial systems. Why small scale fraud may not be identifiable at this level, any peculiar or significant movement would be challenged to confirm the legitimacy of the transactions. During the preparation of the 2020/21 accounts not matters of concern have been identified.</p> <p>Although the Council has a high level risk management framework, risk mitigation around fraud within financial reporting is mitigated through robust budget monitoring processes where service accountants review and challenge budget managers on a quarterly basis. On a more formal level the Council's Internal Audit function take a risk based approach to auditing systems that are more susceptible to the risk of fraud, such as the creditors system. These areas are then reviewed with appropriate frequency to provide confidence and assurance to management that appropriate controls are in place to reduce the risk of fraud within the Council's financial systems.</p> <p>The Council has a internal Investigation and Enforcement Support Team which takes part in the Cabinet Office National Fraud Initiative (NFI) exercises, as well as having our own 'in-house' data warehouse which matches internal data set prevent and detect fraud.</p>

Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The services most at risk of direct fraud are functions that go through the accounts payable team as that is the main point where money leaves the Council Bank Account. All areas are susceptible to different approaches to fraud and as before the internal audit function and accountants are mindful of these risks when engaging with services.</p> <p>The other significant areas susceptible for fraud are Council Tax discounts and exemptions, Business Rates including small business rate relief, Social Housing Fraud including the Right to Buy Scheme. To mitigate these risks Investigation and Enforcement Support Team have an annual investigation work plan which specifies set campaigns to prevent and detect fraud, to mitigate risk by examining controls, procedures and working practices. Where no fraud and error is found this give the Council assurance that our working practices are sound.</p> <p>During 2020/21 the Council was required to make a significant amount of Grant payments to businesses throughout the borough to provide support during the Covid19 Pandemic. Despite limited time frames the Council introduced some validation checks although there is a risk of fraud given the expediency at which these grant payments needed to be made.</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 ABC as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes although minor, a service detected a fraudulent invoice which was submitted for payment. This would have also been identified though the creditors section if it was not spotted by the service as the bank account details were different to those held on file.</p> <p>The Councils risk register is presented to Cabinet on a 6 monthly basis in accordance with the risk framework agreed by the Council.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within ABC where fraud is more likely to occur?</p>	<p>Yes</p> <p>We have a number of schemes such as Syrian Family resettlement, which are undergoing review. This is to ensure any risk is mitigated and staff are protected from the risk.</p> <p>The volume of Covid reliefs and grants that have had to be administered within 2020/21 and the expediency at which they had to be delivered leaves this areas exposed to the risk of Fraud.</p> <p>The new Port Health Authority is a new venture for the Council and will be dealing with significant volumes of transactions and fees and charges. Appropriate controls and systems are being put in place to mitigate these risks but until they are fully embedded and tested there could be risks around this new operation.</p> <p>None that have been identified thus far.</p>

Fraud risk assessment

Question	Management response
<p>5. What processes does ABC have in place to identify and respond to risks of fraud?</p>	<p>The Council has dedicated Investigation and Enforcement Support Team, with experienced Investigators and Intelligence Officers. Our Investigators are members of the Government Counter Fraud Profession. The Council has the following policies;</p> <ul style="list-style-type: none"> Anti Fraud and Corruption Policy Money Laundering Policy Whistle Blowing Policy Register of Interest, Hospitality Procedures, Regulatory Investigators Powers Act Policy (RIPA) <p>The Council also undertakes an assessment of its governance, internal control and risk management arrangements annually in the form of the Annual Governance Statement – this is approved and overseen by the Audit Committee throughout the year.</p> <p>For the Covid19 Grant the Council has complete NFI (National Fraud Initiative) returns and HMRC returns. These returns and the data will be used in the identification and detection of fraud at a national level. NFI information will feed back to the Council with HMRC using data to reconcile tax income statements.</p>

Question	Management response
<p>6. How do you assess the overall control environment for ABC, 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>Risk management is an inherent part of the work of members, the management team, service managers, and line managers. We have an established risk management process, recently reviewed, that focuses on strategic and service risks and instils a good discipline and culture that is risk aware. These processes link to financial reporting in various ways. Strategic financial risks – the overall financial position, and financial risk associated with key strategic projects – are handled through various reporting processes, including the financial planning processes (this also includes the formal scrutiny stage), and the preparation of business plans and reports to members that take forward our key projects, and the risk register itself (reported to and owned by the Audit Committee).</p> <p>For major projects a governance framework exists (the Ashford Strategic Delivery Board) that monitors and discusses progress, including key financial issues and risks and the management of these.</p> <p>The Council has its own data warehouse and has been matching various in-house data sets over the past year. We also take part in the NFI data matching exercise and have undertaken a Transliteration Pilot exercise under the digital Economy Act.</p> <p>We are members of the Kent Intelligence Network which continues to develop in identifying potential fraud across the County</p> <p>The statutory financial statements are informed by all of these various processes and where necessary disclosures are made.</p> <p>The implementation of staff working from home and the response to the pandemic had limited impact on the risk of fraud. All financial planning was reviewed and reporting continued to members via the use of the digital platform 'Teams'.</p> <p>The internal audit annual report and Opinion provide an independent assessment and conclusion on the framework for governance, internal control and risk management and includes the outcomes of internal audit projects and activates. The Opinion is used to inform the Annual Governance Statement, which is the Councils own assessment of the systems of internal control, governance and risk management.</p> <p>Failure or breakdown of internal controls identified by Internal Audit are raised formally and response required by management to take action. These actions of followed up and progress is reported to Management Team and the Audit Committee.</p>

Question	Management response
7. Are there any areas where there is potential for misreporting?	Before reports are presented to Members they are subject to review by the Councils Management Team where they are challenged accordingly to ensure they are not misreporting the position or intention of the organisation.

Fraud risk assessment

Question	Management response
<p>8. How does ABC 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>All new staff members receive a induction upon commencement to the Council, this includes the staff code of conduct and the Council's customer service values.</p> <p>At induction Staff are advised of the types of fraud that may occur and how to report any suspicion either from within or outside of the organisation, anonymously or otherwise, in order that the suspicion can be investigated appropriately and impartially by qualified individuals. Staff are also encouraged to use the corporate whistleblowing policy which is covered as part of the corporate induction.</p> <p>As above staff are advised of the various types of that fraud that occur and how to report them. They are advised that should they have any concerns to contact the Investigations Manager or their line manager to for advice, should they be undecided in what to do next.</p> <p>Yes but no evidence found thus far.</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>Positions of seniority always have a element of risk due to compliance of staff if undue pressure is exercised. Posts where financial transactions take place such as processing of refunds also carry a element of risk. In financial services the payments team and those with access to bank accounts can pose obvious risks although these are mitigated through appropriate authorisation processes and segregation of duties. Credit card owners are also a risk and appropriate controls are in place to monitor and review credit card spend. If an Officer felt under pressure to process are irregular transaction by a Senior Officer then they should be aware of the reporting procedures and whistleblowing policy to raise concerns accordingly.</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?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None found</p> <p>Risks would be picked up accordingly through declarations of interest and where necessary appropriate measures will be put in place to mitigate potential risks.</p>

Fraud risk assessment

Question	Management response
<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 Corporate risk register is presented to the Audit Committee twice a year, this report includes the movement of risks over the period, new risks, and any changes to risk exposures. The Investigation & Enforcement Support Team present an annual report to the Audit committee providing an update on the work undertaken and the results it has achieved. The Audit committee meets on a regular basis and has appropriate reports presented for review to demonstrate appropriate oversight. The Audit Committee as a whole has agreed a development plan and programme of briefings and training to enable them to fulfil their duties and provide robust oversight and challenge. The Committee reports a summary of their activity each year to Full Council. The current audit committee is experienced and provides robust challenge to Management.</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>No.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No.</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 ABC'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 ABC 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>Management employ appropriately qualified or experienced officers to ensure that current and new regulations are brought into effect within the organisation in accordance with legislative guidelines.</p> <p>Awareness of legislative changes is obtained through membership to professional groups and attendance at peer meeting such as the Chief Accountants Group, we also have subscriptions to professional journals/guidance. Government white papers and consultation exercises are also reviewed for potential changes in legislation. The Council also has a policy section that scans for possible changes in local government legislation.</p> <p>Internal Audit review compliance with legislation where that falls within the remit of there audit. Additionally External audit will consider compliance with appropriate laws and regulations.</p> <p>There are no changes that would impact the Council's financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>A annual report is presented to Audit committee outlining any changes in legislation.</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>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does ABC have in place to identify, evaluate and account for litigation or claims?	ABC has a internal legal team who would be the fist point of contact if any matters regarding litigation or claims were identified. The claims will be initially considered within this forum and the best course of action determined. Where matters are of a complex matter then appropriate professionals will be engaged where appropriate.
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

ABC 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 ABC;
- 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 ABC's 2019/20 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 ABC • Whether ABC has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>No.</p>
<p>2. What controls does ABC have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All Councillors and Heads of Service are requested each year to declare if they have any related party transactions. There are a few outstanding and these are currently being pursued.</p> <p>Any material considerations would be declared through this process are reported in Note 31 in the Statement of Accounts.</p> <p>There is a standing item on each Committee agenda requiring Members to declare any interest in any item to be discussed. The Democratic Services Manager keeps a record of all declarations made at meetings and a Register of Members Interests is available for public inspection.</p>

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Where significant transaction took place which involved related parties then it is likely that the Officer would not be involved within the transaction unless absolutely essential. Equally any payments would not be permitted to be authorised by the Officer related to the party. This is not a embedded system control but relies on the professional standards and ethics of those involved.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Where significant transactions take place outside the normal course of business then they would need to be reported to Council's Cabinet and Council for reporting and approval in accordance with the Council's financial procedure rules.

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>The classes of transactions that could have a material impact on the Financial Statements are:-</p> <ul style="list-style-type: none"> • Pension liability • Strategic Investment Portfolio • Property, both Council Dwelling and and commercial land and property • Investment Properties – Grouped position • Bad Debt Provision / Expected Credit Losses • Depreciation • Significant accrual estimates • NNDR Appeals • Loans Fair Value Estimates <p>The accounting estimates are updated in accordance with best practice and what legislation dictates. Significant events would include global pandemics and consideration would be given to updating estimates where they may not be routinely due. Where there was a significant movement appropriate in accounting estimates appropriate disclosures would be made.</p>
<p>2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>The corporate risk register does not have a specific risk covering accounting estimates, it has a high level strategic risk "Insufficient reserves to respond to another unforeseen event". This risk considers the level of reserves held to deal with unforeseen and could incorporate any issues arising around accounting estimates.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<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>The methods and assumptions follow accounting standards where applicable as set out in the Council's accounting policies.</p> <p>Source data varies for each assumption and where market data is not available, unlike Investment values which operate in a active market so a accurate price is published, appropriately qualified professionals such as Valuers are appointed on behalf of the Council. Where estimates are more localised as with debt provisions, the estimation criteria is based on historical data. Where a significant event has happened an appropriate adjustment/weighting will be made.</p> <p>The Accountancy team are mindful of changes in legislation that would require a change in accounting estimates and would adjust/advise relevant professionals accordingly.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Dependent on relevance of the estimate to the Council the need to subsequently review those assumptions are varied. Valuations such as Council Dwellings why a extremely large figure is of relatively low significance to the organisation at present as we are not holding the assets for sale. The most prominent estimates that are considered would be significant accruals, this would involve ensuring the corresponding transaction happened to ensure income/expenditure is not over/under stated between years. Where a bad judgement is made then the process will be reviewed to understand what went wrong and what changes could be made to strengthen the estimating process.</p>
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>No.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Where the appropriate skills and qualification are not available in house then management will look to use external specialist, equally where skills are within the organisation, such as valuers, then the work would still be outsourced for independence but also as we would not have sufficient Capacity.
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?	External Consultants are procured and appropriately engaged identifying what is expected such as the valuation methodology at a high level. Where information is received the Council will make appropriate spot checks and compare to previous years to make sure the assumptions seem reasonable in consideration to market perception. Where comparators identify outliers then these will be challenged and appropriate responses ascertained accordingly to ensure that we are comfortable with the estimates.
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?	The team responsible for providing the estimates will act as contract manager for the given task ensuring that the correct information is provided in a timely manner, Accountancy will assist where necessary.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: 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 Estimates are generated and considered by the Accountancy Team in the first instance as part of the closing accounts process. Once these draft accounts are ready they are presented to the Council's S151 Officer and the Audit Committee for review. This is the forum for challenging and seeking clarification around the estimates presented within the draft accounts, particular attention being given to significant movements.</p> <p>In relation to the methods and models used these are covered at a high level within the accounting policies of the Council which presented to and supported by the Audit Committee on an annual basis.</p> <p>The accounting estimates and methodologies used will also be considered by External Audit which provides assurance to Audit Committee through the final audit report and signing of the accounts.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
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)?	Yes, note 3 within the statement of accounts covers critical judgements in applying accounting policies and any significant judgements would be covered within this section.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	They approved the accounting policies that provide an outline to the estimation techniques to be used where appropriate and these are presented and signed off on annual basis with any changes to the existing practices highlighted.

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	Valuations are made in accordance with Accounting Policies which were reported to and approved by the Audit Committee on the 16 March 2021.	The Council uses the CIPFA Asset model which categorises all of the Council assets. Commercial properties are valued proportionately over a 5 year period with Assets over £250,000 valued annually.	Yes, the Council engages professional valuers to carry out the annual valuation exercise	<p>Valuations are undertaken by suitably qualified professionals who consider all appropriate market data when making the assumptions to inform estimates. Following additional support requirements as part of IAS540 the Council now requests greater oversight of those assumptions used and as far as practically possible check that we are happy with the rationale and any local factors have been considered.</p> <p>2020/21 was a full revaluation, an alternative could have been just to use an appropriate index but this would lead to less accurate figures and not be in accordance with the accounting policy.</p>	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	Valuations are made in accordance with Accounting Policies which were reported to and approved by the Audit Committee on the 16 March 2021.	The Council uses the CIPFA Asset Register software to calculate depreciation and as this includes all the accounting requirements of the Code this reduces the risk of inaccurate depreciation.	The depreciation calculations are run in house but based on the formulae within the CIPFA asset Register system. Spot checks are performed to establish the validity of the system formulae	Depreciation is accurately calculated in accordance with the Councils accounting policies and no other estimation methodologies are considered.	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?
Significant accruals	Budget Mangers/Accountant - Based on perceived actuals	Budget monitoring identifies gaps in budget where there is possibly the need for a accrual. These will be reviewed by budget and service managers accordingly. Reports on significant transactions are conducted post year end to identify any missed transactions.	No.	Significant accruals use a number of estimation techniques to calculate the individual accruals, alternatives are not considered.	No.
Valuation of pension liability	Information is provided by Kent County Council who administer the pension fund.	Pension fund liabilities are based on the assumption used by KCC. These are challenged when reviewed	KCC pension fund engage actuary firm Barnett Waddingham	In 2020/21 the Council will complete the accounts using actual pension fund investment values to help minimise valuation risk.	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?
NNDR Appeals provision	The Council uses Analyse Local to assess NNDR Appeals Provision	Analyse local uses information provided by the Council's revenues and benefits team	Yes – Analyse Local	Assumptions on appeals are difficult to forecast and uses assumptions made at a national level with some local knowledge applied. The approach has been approved with other Kent authorities and therefore no alternatives are considered.	No.
Credit loss allowance	Depending on the nature of the income class, different approaches are taken to measure the potential credit loss	Annual review of provisions	No.	Assumptions for reviewing credit losses rely on a number of factors such age, type and legal standing. Historical data is also used in these assumptions which has developed over a number of years. Adjustment will be made where appropriate to react to market conditions.	No.
Fair value of loans	Models to calculate the Fair value of loans are provided by the Council's Treasury Management Advisors Arlingclose.	The fair value figure is required for the appropriate disclosure note within the accounts.	Yes. Arlingclose the Council Treasury Management Advisors.	The formulae provided uses a number of market assumptions so carry an element of risk. Risks arising from financial instruments are covered as a separate note within the statement of accounts and included interest rate sensitivity analysis.	No.



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