

Informing the audit risk assessment for High Peak Borough Council 2020/21

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between High Peak Borough Council's external auditors and High Peak Borough Council's Audit and Regulatory Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Regulatory Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and Regulatory Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Regulatory Committee and supports the Audit and Regulatory 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 High Peak Borough Council's management. The Audit and Regulatory 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>Covid 19 will have impacted spend and income relative to previous financial years, consideration of impairment of aged debt held and accounting treatment of significant grant funding from Government in response to Covid. Potential impact on the valuation of pension fund / non current assets due to uncertainty caused by the pandemic.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by High Peak Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies are reviewed and updated on an annual basis as part of closedown process to ensure that any new policies are incorporated and that existing policies are correct.</p> <p>Consideration will be given to the Government Grants and Contributions policy in the 2020/21 statement and any necessary update to reflect the treatment of Covid-19 business grants (such as the issue of whether the Council is acting as agent or principal) will be undertaken.</p> <p>The implementation of IFRS 16 has been delayed by a further year, the policy has therefore not been updated.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The Council's financial instruments include: cash investments, cash equivalents debtors, creditors, external borrowing held at amortised cost as in previous years.</p> <p>The Council's financial instruments do not include any derivative arrangements.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>The receipt of Government grants to fund the business grant process and support the Council with additional expenditure/income losses incurred in response to Covid.</p> <p>A potential significant year end debtor or creditor with central government in respect of Covid Business Grants where the Council has acted as agent.</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?	Nothing that we are specifically aware of. This will be formally assessed in conjunction with the external 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 High Peak Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has engaged Freeths and Browne Jacobson during the year. Neither are working on litigation/contingencies from prior years.

General Enquiries of Management

Question	Management response
9. Have any of the High Peak Borough Council's 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?	Other than Browne Jacobson/Freeths for legal advice, in terms of financial issues, the Council has engaged Link (treasury advice), Capita (valuations) and Zurich (insurance & Risk Management) Hymans Robertson Actuary (pension)

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 and Regulatory Committee and management. Management, with the oversight of the Audit and Regulatory Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Regulatory Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

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

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

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

We need to understand how the Audit and Regulatory Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Regulatory 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 High Peak Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have High Peak Borough 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>Arrangements are in place to prevent and detect fraud which includes the work undertaken by Internal Audit, Council Tax and Benefits Teams.</p> <p>The Internal Audit plan covers the key systems which feed into the Statement of Accounts and audits are undertaken on a risk-based approach</p> <p>The Chief Executive, Executive Directors and Heads of Service complete and sign managers assurance statements on an annual basis confirming that the governance framework has been operating within their areas of responsibility.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The potential for fraud is considered when setting the audit plan – with potential high risk areas then audited on a more frequent basis, such as: Treasury, services with cash transactions/collection, procurement, all financial feeder systems Council Tax and Business Rates.</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 High Peak Borough 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>Confirmation from the Monitoring Officer, Chief Financial Officer (CFO), Head of Audit, Head of Legal and Head of Finance has been obtained that no significant frauds have been identified during 2020/21 The Audit and Regulatory Committee provides oversight.</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 High Peak Borough Council where fraud is more likely to occur?</p>	<p>No specific fraud risks or areas with a high risk of fraud have been identified. However, the Council is always vigilant to the threat of fraud and Internal Audit work is planned to highlight the threat of potential fraud.</p>
<p>5. What processes do High Peak Borough Council have in place to identify and respond to risks of fraud?</p>	<p>There are a number of policies and procedures in place including an Counter Fraud & Corruption Strategy, RIPA Policy & Procedures, Whistleblowing Policy, risk management arrangements set out in the risk management policy, strategy and process, participation in the NFI. Internal Audit is also 'good practice compliant' and has a proven track record in planning audit work to take account of fraud risks and responding appropriately to fraud risks in the organisation and enhancing controls to protect against the risk of fraud.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for High Peak Borough 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>Annual review of the effectiveness of Internal Audit assessing compliance with PSIAS inc. external quality assessment every 5 years.</p> <p>Annual review of the effectiveness of the Audit & Regulatory Committee.</p> <p>Quarterly internal audit progress reports are reported to the Audit & Regulatory committee highlighting key issues.</p> <p>Overall internal controls work effectively and Internal Audit report on ineffective controls which are corrected by management.</p> <p>External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts.</p> <p>The Strategic Risk Register is presented to Audit Committee.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>None significant. Financial and operational targets are an important part of the management process. However, a strong corporate commitment to appropriate ethical behaviour outweighs any pressure to meet targets.</p> <p>The financial reporting process is subject to review by the S151 Officer.</p>

Fraud risk assessment

Question	Management response
<p>8. How do High Peak Borough 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>There are a number of policies and procedures in place which are reviewed and approved by the Standards Committee including the Ethical Framework (inc. Code of Corporate Governance), a Staff Code of Conduct, Registers for Interests and Gifts & Hospitality.</p> <p>Such policies and procedures are the subject of a detailed communications process, which includes extensive coverage during induction and training.</p> <p>The Council has a well publicised Whistleblowing Policy which encourages staff to report any concerns regarding fraud and irregularity through a variety of channels and a Counter Fraud and Corruption Strategy. No significant issues have been reported.</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>Treasury management risks are identified, assessed, audited annually and reviewed through Audit & Regulatory Committee, with clear segregation of duties and authorisation limits.</p>
<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>Not aware of any related party relationships or transactions that could give rise to instances of fraud.</p> <p>Monitoring and controls in place mitigate the risk.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Regulatory Committee?</p> <p>How does the Audit and Regulatory Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The committee maintains oversight through :</p> <ul style="list-style-type: none"> • Review and approval of policies and procedures including an Counter Fraud & Corruption Strategy, Regulation of Investigatory Powers Act and Whistleblowing Policy; • Review of risk management arrangements set out in the risk management policy, strategy and process; • Review of Internal Audit progress reports; • Review of Internal Audit Annual Report, which includes the opinion on the control environment; • Receiving periodic updates on the outcome of any fraud investigative work; • Receiving updates on actions taken to enhance controls and protect against the risk of fraud e.g. procurement arrangements; and • Consideration of reports from External Audit and any action plans setting out recommendations made. <p>Procedures dictate that the Chair of the Audit and Regulatory Committee is informed of any matters of actual, suspected or alleged fraud (with notification to the Audit and Regulatory Committee subject to confidentiality).</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>

Fraud risk assessment

Question	Management response
<p>14. How does the Council protect itself against Fraud in its Group Activities?</p>	<p>Alliance Environmental Services Limited [AES] ; this joint operation with Staffordshire Moorlands District Council and ANSA Environmental Services Limited (trading arm of Cheshire East Unitary Council) is required to produce audited accounts for consolidation in the Authority's financial statements. Both the audit opinion and consolidation process provide assurance as to the financial controls within the organisation. The Services Operating Agreement imposes a number of obligations on AES;</p> <ul style="list-style-type: none"> - To hold Monthly meetings with representatives of the Council to address operational matters - To prepare Statements for inclusion in the Quarterly Financial Performance reports presented to Corporate Select. - To produce on demand written summaries of costs - To maintain open book accounting, allowing reasonable access to officer's of the Council - To allow reasonable access to the Authority's auditors both internal and external. Further assurance is provided by Council officers holding two of the five directorships that make up the AES Board. The board meets 10 times per year and all significant decisions of AES are subject to the unanimous agreement of all directors. <p>Internal Audit is 'good practice compliant' and has a proven track record in planning audit work to take account of fraud risks and responding appropriately to fraud risks in the organisation and enhancing controls to protect against the risk of fraud.</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 and Regulatory Committee, is responsible for ensuring that High Peak Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Regulatory 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 High Peak Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Internal Audit service operates to the standards set out in the "Public Sector Internal Audit Standards" and the Internal Audit Plan specifically considers compliance with laws and regulations.</p> <p>The Council has a well publicised Whistleblowing Policy.</p>
<p>2. How is the Audit and Regulatory Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Chief Financial Officer attends Audit and Regulatory committee meetings to respond to members enquiries. Standard reporting formats requires that legal implications are outlined in all committee reports. The Head of Audit has a number of alternative reporting lines in the event of breach of law or regulation, including a right to meet privately with the Chair of the Audit and Regulatory Committee or the Committee in full, should the situation determine such an approach necessary.</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>Confirmation from the Monitoring Officer, Chief Financial Officer (CFO), Head of Audit, Head of Legal and Head of Finance has been obtained that no instances of non-compliance or suspected non-compliance with laws and regulations have been identified during 2020/21</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 High Peak Borough Council have in place to identify, evaluate and account for litigation or claims?	<p>The Council has embedded systems and procedures in place to deal with litigation and claims as they emerge (e.g. the “Link Officer” in respect of Ombudsman issues).</p> <p>At year end, additional procedures ensure that any such items are reflected in the financial statements if appropriate. This is incorporated within closedown procedures and includes specific enquiries of all senior management with a particular emphasis on the Head of Legal, the Insurance Officer and the Head of Customer Services (responsible for the Ombudsman related issues).</p>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No
7. What arrangements does High Peak Borough Council have in place to prevent and detect non-compliance with laws and regulations within its Group activities?	<p>Alliance Environmental Services Limited [AES] ; this joint operation with High Peak Borough Council and ANSA Environmental Services Limited (trading arm of Cheshire East Unitary Council) is required to produce audited accounts for consolidation in the Authority’s financial statements. Both the audit opinion and consolidation process provide assurance as to compliance within the organisation.</p> <p>To facilitate the Authority in preventing and detecting non-compliance with laws and regulations the Operating Agreement imposes a number of obligations on AES;</p> <ul style="list-style-type: none"> - To hold Monthly meetings with representatives of the Council to address operational matters - To prepare Statements for inclusion in the Quarterly Financial Performance reports presented to Corporate Select - To produce on demand written summaries of costs. - To maintain open book accounting, allowing reasonable access to officer’s of the Council - To allow reasonable access to the Authority’s auditors both internal and external. <p>Further assurance is provided by Council officers holding two of the five directorships that make up the AES Board. The board meets 10 times per year and all significant decisions of AES are subject to the unanimous agreement of all directors.</p>

Related Parties

Issue

Matters in relation to Related Parties

High Peak Borough 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 High Peak Borough 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 disclosed in High Peak Borough Council'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 High Peak Borough Council • whether High Peak Borough Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>No subject to the receipt of management and member declarations for 2020/21.</p>
<p>2. What controls does High Peak Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> • Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. • Annual return from senior managers/officers and members requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests. • Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. • Review of related information with subsidiaries, companies and joint ventures, e.g. accounts. • Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation • Review of year end debtor and creditor positions in relation to the related parties identified. • Review of minutes of decision making meetings to identify any member declarations and therefore related parties

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Members are required to withdraw from the decision making process where they have declared a related party interest. All significant transactions are formally approved by the respective Executive Director / CEO
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Transactions outside of the normal course of business would be subject to S151 approval and be reported to Full Council
5. What arrangements does the Council have in place to ensure that its Group activities correctly identify and account for related party transactions?	Other than the authority's normal authorisation protocol the response is as 2

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 and Regulatory Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
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>Significant estimates expected to be included in the 2020/21 statement of accounts include:</p> <ul style="list-style-type: none"> •Valuation of PPE & Investment Properties •Financial Instruments Fair Value •NNDR appeals provision •Accruals •Pension Liability
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	<p>They are identified as part of the annual closure of accounts process and documented with the Statement of Accounts. The management team are asked to confirm any potential contingent assets / liabilities.</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>The Council engages a number of external (such as the actuary, treasury advisors, valuers) and internal (Finance, Legal and Asset teams) expertise to inform the estimates</p>
4. How do management review the outcomes of previous accounting estimates?	<p>The outcome of previous accounting estimates is reviewed as part of the estimation process in the following year and is considered up to the date that the accounts are authorised for issue.</p> <p>We are also reliant on the pension fund audit, audit of any group structures (AES) to provide assurance on the outcomes of previous accounting estimates</p>
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	<p>None identified, but as part of the 2020/21 accounts process, the Council will undertake further challenge and scrutiny of the reports received from valuers.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Based on materiality, skill set and capacity. External experts with specialist skills are utilised for the valuation of PPE and investment properties, financial instruments and pension liability.</p> <p>Finance staff attend relevant training and undertaken regular CPD, including attendance at Grant Thornton closure of accounts workshop.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Based on materiality, also taking into account changes in regulatory / accounting environment. Reliance on external audit process of joint venture companies.</p> <p>Procurement process followed to engage suitable external expertise with relevant skills, expertise, experience and qualifications.</p>
<p>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?</p>	<p>External audit process of the pension fund / joint venture partners. Procurement process followed to engage suitable external expertise with relevant skills, expertise, experience and qualifications and ensure they are independent and professional.</p> <p>For areas of estimation where experts are not used, these are subject to review by the S151 Officer. Control arrangements are reviewed by internal audit and external audit and any findings reported to the Audit & Regulatory Committee.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>There is a specific section within the Statement of Accounts allocated to accounting estimates. These are formally reported to the Audit & Regulatory Committee.</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)?	All significant accounting estimates that require significant judgement are disclosed in Appendix A
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	<p>Yes – accounting estimates are undertaken by experienced finance staff with the required knowledge and skills who regularly undertake professional development included attendance at closure of accounts workshops.</p> <p>The Council utilises external expertise where not held internally.</p>
12. How is the Audit and Regulatory Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied when estimating the pension liability.</p> <p>A firm of qualified valuers is engaged by the Authority to carry out, for the major assets, a programme of physical valuations to ensure that their carrying values are subject to professional and independent assessment.</p> <p>External and Internal audit also provide assurance as part of the audit process.</p>

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	<p>Valuations for land and buildings are made by the external valuer in line with RICS guidance on the basis of 5 year valuation with interim reviews.</p> <p>The Council applies a de minimis threshold of £10,000 in determining assets to be valued.</p> <p>Other assets are valued on the basis of depreciated historic cost as proxy for fair value as relatively short asset lives before replacement.</p>	<p>Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.</p> <p>The overriding requirement is that the carrying value is not materially different from the amount that would be determined by valuation and so the Capital Accountant considers factors (informed by Property Services Manager and external valuer) that would indicate where a valuation is required.</p>	<p>Use of Capita Property and Infrastructure Ltd augmented with internal Property Services (RICS valuer) for buildings valuations.</p> <p>Other assets considered by Services Manager and capital accountant.</p>	<p>Valuations are made in-line with RICS guidance – reliance on expert. Assumptions are set out in valuer's report.</p> <p>For other assets no revaluations but asset lives reviewed based on the operational experience of the service areas.</p>	No
Council dwelling valuations	As outlined above Housing stock is valued on a beacon basis by annual desktop review and then a physical valuation every 5 years				
Investment property valuations	As outlined above				

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 and estimated useful lives of PPE	<p>Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis</p> <p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> • Buildings range 30 to 70 years • Equipment/ vehicles 3 to 15 years • Plant 3 to 15 years • Infrastructure 25 years 	<p>Consistent application of depreciation method across all assets</p> <p>Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.</p>	<p>No</p> <p>Use of Capita Property and Infrastructure Ltd augmented with internal Property Services (RICS valuer) for buildings. Other assets considered by Services Manager and capital accountant</p>	<p>The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately.</p> <p>The method makes some generalisations. For example, building lives would vary depending on the construction materials used. This life would be recorded in accordance with RICS valuation. Detailed information is included in the valuers report for each asset. The lives used for other assets are based on operational experience of the service areas. The asset live is then recorded in the asset register.</p>	<p>No</p> <p>No</p>

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?
Valuation of defined benefit net pension fund liabilities	The Council is an employing authority within the Derbyshire Local Government Pension Scheme. The administering authority (the County Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
Level 2 investments	Level 2 investments are all <12 months therefore Fair Value considered to equal Carrying Value	Level 2 investments are all <12 months therefore Fair Value considered to equal Carrying Value	Link Asset Services	As FV=CV in applicable investments, there is little degree of uncertainty and no alternatives required	No
Level 3 investments	n/a, the authority does not have any level 3 investments				

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?
Fair value estimates	<p>Financial assets are required to be classified and measured at fair value, with any changes in fair value recognised in Profit and Loss. The valuation should, where material, reflect any change in expected future cash flows. Thus for instance if there arises an expectation that future cash flows from an investment will be reduced this would impact on the current carrying value of that financial instrument.</p> <p>The Finance Team identify those assets where future cash flows are not now anticipated to be as expected at initial recognition of the instrument. Where material these changed cash flows are used to restate the carrying value of the financial instrument. This requires both estimation of future cash flows and their impact on the current carrying value of the instrument.</p>	<p>Annual review of financial instruments to identify where possibility of changed future cash flows.</p> <p>Where likely quantify using best estimates.</p>	<p>When considered necessary the Council's treasury advisers will be consulted.</p>	<p>The Authority's Treasury Management Strategy is such that investments are restricted to low risk entities.</p> <p>Where instruments have arisen out of operational requirements to support the aims of the council then the level of knowledge about the third parties is such that risk is minimised.</p>	<p>Yes. IFRS9 has introduced the need to reflect 'future losses' in the reported carrying value of financial instruments.</p>

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?
Provisions	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	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?
Accruals	<p>Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received. While processes and procedures will be maintained to capture all accruals, resources will be focused on identifying individual transactions of £10,000 and above</p> <p>An Accumulated Absences creditor balance is at £97,000 to reflect the value of time owed to employees for accrued holidays, TOIL (time off in lieu) and flexitime. This balance is based on an historic value subject to annual review and amendment where there have been significant changes in staff numbers or working patterns</p>	<p>Review financial systems to identify where goods have been received but not paid for.</p> <p>Requests of service managers to identify any other goods or services received or provided but not paid for, concentrating on transactions greater than £10,000.</p> <p>Review of circumstances that indicate the approach to annual leave accrual is no longer valid.</p>	No	<p>Accruals for income and expenditure often based on known values.</p> <p>Where accruals are estimated the latest available information is used.</p> <p>The value of the accruals below the threshold of £10,000 identified in prior years is not a material amount.</p> <p>The annual leave accrual is based on historic records. An annual review will be performed to assess whether there any circumstances that mean the historic calculation of annual leave is no longer a reasonable estimate and whether the survey process needs to be performed on a partial or complete basis. Events likely to trigger such a decision would be significant changes in staff numbers or working patterns.</p>	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?
Credit loss and impairment allowances	Simplified model on Trade Debtors ECL, an aggregate of many immaterial balances only approaching the testing materiality limit in total; Historic risk of default on deposits with banks etc - very minimal; loans to other parties all assessed individually.	Historic trends analysed and applied to debtors	Link for deposits with banks only	Historic trends considered reasonable based on individual small values of outstanding debts and patterns of payment. Lack of negative evidence on other loans provides reasonable certainty	No
Finance lease liabilities	At the inception of the lease the liability is the lower of the fair value of the asset or present value of the minimum lease payments. Payments are split between the finance charge and the element that reduces the liability.	Finance review contracts and payments over the de-minimus level to ensure the lease is categorised correctly as a finance lease or an operating lease. Calculations supported by lease documents.	May obtain guidance to support lease classifications.	Assets recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).	No



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