

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

Jackson Murray
Director
T 0117 305 7859
E Jackson.Murray@uk.gt.com



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Purpose

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

Background

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

This two-way communication assists both the auditor and the Audit, Governance and Standards 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, Governance and Standards Committee and supports the Audit, Governance and Standards 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 Redditch Borough Council's management. The Audit, Governance and Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

| Question | Management response |
|---|--|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p> | <p>The key issues that will impact the financial statements for 2020/21 can be split between external and internal. The external impact will be determining the accounting requirements for IFRS 16 and the increased audit scrutiny with regards to fixed assets. Internally, the implementation of the new ERP system has now been completed, so it will be a learning process to ensure that working papers created meet audit requirements. Finally, the impact of COVID-19 and the passporting of grants as well as the multi year nature of the collection fund impacts must be accounted for correctly. The continuing impact of COVID-19 on the leisure industry has significant ramifications for the Council through its wholly owned leisure company Rubicon Leisure which will be reflected in detail in the accounts.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Redditch Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p> | <p>The accounting policies are reviewed every year as part of the accounts closedown process. There are no proposed discretionary changes this year as there have been no fundamental changes in Council activities.</p> |
| <p>3. Is there any use of financial instruments, including derivatives?</p> | <p>No</p> |
| <p>4. Are you aware of any significant transaction outside the normal course of business?</p> | <p>The passporting of COVID-19 grants has been a significant piece of work which would be considered to be outside the usual course of business.</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? | A full review will be conducted as part of the closedown process with officers across the Council and insurance asked to feedback to determine if there have been any potential impacts on non current assets. To date there have been none notified. |
| 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 Redditch Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years? | During the year the Council as used Anthony Collins Solicitors, Browne Jacobson LLP, Bevan Brittan solicitors ,St Philips, St Ives and Kings Chambers. Also Geldards LLP and BLM Solicitors. None working on open litigation or contingencies from previous years. |

General Enquiries of Management

| Question | Management response |
|--|---|
| 9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? | No |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | Black Radley have been hired by the Council to support its implementation of a commercial culture and bring challenge where appropriate to decision making. |

Fraud

Matters in relation to fraud

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

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

As Redditch 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, Governance and Standards 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, Governance and Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Governance and Standards 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 Redditch Borough Council's management.

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>1. Has Redditch 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>The Council has assessed the risk of material misstatement. Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas and work on Council Tax and Housing Benefit fraud.</p> <p>There is on-going communication between external audit and responsible officers on emerging technical issues. Officers also attend technical updates. Financial monitoring reports also highlight areas of variance within the capital and revenue budgets and this assists management in identifying areas of material misstatement within the accounts</p> <p>Management considers there is a low risk of material misstatement in the financial statements due to fraud and none has been detected to date.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>There are some areas that are inherently at risk from fraud such as:</p> <ul style="list-style-type: none"> - Council Tax - Benefit Fraud - Single person discount |

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 Redditch 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>The Audit, Governance & Standards Committee receives any adhoc fraud reports. There are no material instances of fraud that have been identified during the year. The Audit, Governance & Standards Committee would consider the fraud and the actions put forward by officers to ensure fraud is mitigated in the future.</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 Redditch Borough Council where fraud is more likely to occur?</p> | <p>Evidence published within the Annual Fraud Indicator report suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Council. Locations handling income, particularly in the form of cash, are more likely to be at risk of fraud. However, management does not consider these to be significant risks.</p> |
| <p>5. What processes do Redditch Borough Council have in place to identify and respond to risks of fraud?</p> | <p>Financial monitoring reports highlight areas of variance within the capital and revenue budgets and this assists management in identifying areas of material misstatement within the accounts.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>6. How do you assess the overall control environment for Redditch 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>Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.</p> <p>Sound systems of internal control with roles and responsibilities are defined in various places such as constitution.</p> <p>The role of Internal Audit provides assurance that the Council's internal controls are in place. An annual report is produced and is available prior to the annual accounts being signed and approved.</p> <p>The regular monitoring of budgets and the allocation of financial professional support to budget holders provide control and mitigation against such overrides.</p> |
| <p>7. Are there any areas where there is potential for misreporting?</p> | <p>Due to the control environment in place, there are no areas which are particularly at risk of misreporting.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>8. How does Redditch 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 is a Fraud Strategy and Whistleblowing procedure in place which explain the procedures to follow.</p> <p>These policies have been reviewed and are in place for 2020/21.</p> <p>Employees are aware of the anti-fraud and corruption strategy, details are available on the website. Staff are encouraged to report anything that they perceive as being “out of the ordinary”, and no issues have been raised to date.</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>There are not any significantly high-risk posts identified.</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>2019/20 financial statements disclosure of related party transactions does not identify potential fraud risk.</p> <p>Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>11. What arrangements are in place to report fraud issues and risks to the Audit, Governance and Standards Committee?</p> <p>How does the Audit, Governance and Standards 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>Internal Audit provide the Audit, Governance & Standards Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.</p> <p>Any adhoc investigations are reported to the Audit, Governance & Standards Committee.</p> <p>The Corporate risk register is reviewed by the Committee and the Member risk champion reports to the Committee at each meeting on updates from managers in relation to departmental registers.</p> <p>To date, no issues or concerns have been raised.</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>We are not aware of any whistleblowing reports.</p> <p>If there was such a report then members would consider the appropriate course of action.</p> |
| <p>13. Have any reports been made under the Bribery Act?</p> | <p>We are not aware of any reports under the Bribery Act.</p> |

Law and regulations

Matters in relation to laws and regulations

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

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

As auditors, 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, Governance and Standards 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 Redditch 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 Monitoring Officer will advise the Council's Management team and Councillors as appropriate.</p> <p>The reporting arrangements include sections for both financial and legal implications to ensure managers have considered compliance with laws and regulations. In addition staff have professional training and conduct in place to support compliance.</p> <p>We are not aware of any changes to Redditch Borough Council's regulatory environment that may have a significant impact on the Redditch Borough Council's financial statements.</p> |
| <p>2. How is the Audit, Governance and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>Assurance of complying with the Council's Constitution is provided through the Annual Governance Statement which is reported to the Audit, Governance & Standards Committee.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p> | <p>No</p> |
| <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 Redditch Borough Council have in place to identify, evaluate and account for litigation or claims? | The legal and finance team liaise on a regular basis to identify and evaluate any potential claims. |
| 6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? | No |

Related Parties

Matters in relation to Related Parties

Redditch 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 Redditch 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 including those disclosed in Redditch 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 Redditch Borough Council; • whether Redditch Borough Council has entered into or plans to enter into any transactions with these related parties; and • the type and purpose of these transactions . | <p>The Council, by nature of its activities, has a significant list of related parties with which it transacts. There have been no material changes in relation to related parties since 2019/20, subject to the receipt of management and member declarations for 2020/21</p> |
| <p>2. What controls does Redditch 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, and a register for pecuniary interests in contracts for Officers and Senior Mangers requiring disclosure of related party transactions. • Annual return from senior managers/officers requiring confirmation that they have 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. |

Related Parties

| Question | Management response |
|---|--|
| <p>2. What controls does Redditch Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p> | <ul style="list-style-type: none"> • Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. • 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. |
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>Transactions with related parties are subject to the same authorisation and approval arrangements as other transactions including controls enforced through the Technologyone system and the observance of the segregation of duties of officers. Significant changes to arrangements with related parties will be reported through the Council's political management processes as appropriate.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>All transactions including any outside the normal course of business are subject to the same authorisation and approval arrangements including controls enforced through the Technologyone system and the observance of the segregation of duties of officers. All business will be expected to be within Council policy and any new business will be subject to a formal decision through political management arrangements</p> |

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- how management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- how the entity's risk management process identifies and addresses risks relating to accounting estimates;
- the entity's information system as it relates to accounting estimates;
- the entity's control activities in relation to accounting estimates; and
- how management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards 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, Governance and Standards 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? | The need for material accounting estimates is considered for property asset valuations, pensions assets and liabilities values and provision for credit losses and impairment allowances and provision for other liabilities. |
| 2. How does the Council's risk management process identify and addresses risks relating to accounting estimates? | Each area is subject to robust scrutiny as part of the closedown process informed by input from external professional experts where appropriate and using evidence based approaches to assess the estimation basis. |
| 3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | Each area has a clear set of base information and/or accounting records including a significant degree of historical data where relevant. They will have established calculation bases which are reviewed and refined in response to external challenge (e.g. from the external auditor) or changing circumstances (e.g. the COVID-19 pandemic). |
| 4. How do management review the outcomes of previous accounting estimates? | Accounting estimates will be reviewed as the natural course of some of these estimates where historical data/performance provides the starting point of estimation. Other areas of estimation are subject to valuation from first principles each year. |
| 5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these? | No |

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>Differentiation has been made between where external expert knowledge and access to wider market data is required to make an accounting estimate and where in-house expertise and experience can be reasonably applied. There is a value for money consideration in respect of the likely value and variability of accounting estimates and the cost of procuring external advice.</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>There is a degree of reliance on the work of externally procured experts although all accounting estimated will be subject to a test of reasonableness. Actuarial and property valuation experts work within industry wide standards which provide a high degree of quality assurance.</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 experts provide comprehensive reports detailing the basis and output of their work which provides management the facility to understand and challenge accounting estimates.</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; and • the resultant accounting estimates included in the financial statements. | <p>Areas of significant accounting estimates are clearly flagged in the financial reporting process to the Council's Audit, Governance & Standards Committee through the note on 'Significant Assumptions made in estimating Assets and Liabilities'. Areas of volatility and those deemed to be of significant interest (by value or nature) will be given particular prominence in the presentation to 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)? | The impact of COVID-19 on the accounts may well impact on accounting estimates and result in significant judgement being applied. |
| 11. Are the management arrangements for the accounting estimates, as detailed in Appendix A, reasonable? | Yes |
| 12. How is the Audit, Governance and Standards Committee provided with assurance that the arrangements for accounting estimates are adequate? | The professional judgement of the Section 151 officer is applied and then explained to committee with regards to the accounting estimates used. |

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 | The Council has a contract with Bruton Knowles to manage its asset base, including undertaking annual valuations. The Valuer is a RICS/CIB Member) and reviews are made inline with RICS guidance on the basis of 5 year valuations with interim reviews. | Technical Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation | Yes, Bruton Knowles | Valuations are made in line with RICS guidance –reliance on expert. | No |
| Depreciation | Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis. | Consistent application of depreciation method across all assets. | No | <p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <ul style="list-style-type: none"> Assets acquired in the first half of a financial year and depreciated on the basis of a full year's charge; assets acquired in the second half are not depreciated until the following financial year. Assets that are not fully constructed are not depreciated until they are brought into use. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---|--|--|--|--|---|
| Valuation of defined benefit net pension fund liabilities | The estimates of actuarial movements in the pension fund liabilities are undertaken by a qualified actuary. The actuary uses estimates based on their professional knowledge within accepted parameters used by the sector and as reviewed by the Council. | The Council reviews the factors used by the actuary to determine that they are within the standard sector parameters and are reasonable. | A certified actuary is used by the pension fund to provide the information | The underlying assumptions are based on the actuary's judgement within the standard sector parameters. Given the length of the liabilities a small change to one of the parameters could have a significant impact on the level of liabilities reported. The professional actuary is used to ensure that the estimate has been based on an appropriate basis. Asset valuations have been based on the best estimates available to the pension fund at the time of producing the report. Additional disclosures will be set out in the accounts on the potential uncertainties at the year end. | No |
| Fair value estimates | The calculations for the fair value of financial instruments and borrowings are provided by the Council's treasury management advisers, Arlingclose. These are generally for disclosure only. | Appropriately qualified experts used to derive valuations. | Yes, Arlingclose | The Council does not have any complex borrowings with high degrees of uncertainty. The Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value – being its professional treasury advisers, Arlingclose. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether Management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|------------|---|---|--|---|---|
| Provisions | Provisions are 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 or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES 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

| 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 | We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid. | Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year. | N/A. | N/A. | No. |
| Credit loss and impairment allowances | An analysis has been made of the repayment profile of invoices raised. This has then been used to inform the judgement as to the level of expected credit losses required taking into account the nature of the debtors and whether there is any security over the debt. | The estimates determined from the exercise have been compared to the amount of debt written off in prior years to ensure that estimates remained reasonable. Assumptions have been challenged on the robustness of provisions proposed. | A range of relevant Council staff have been consulted where appropriate. | The impact of the spread of Covid-19 on the local economy as a result of the measures taken may not be determined for some time. Whilst initial estimates have been made these will need to be reviewed as more information is gathered. | No |



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