



Informing the audit risk assessment for Herefordshire Council 2022/23

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Purpose

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

Background

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

This two-way communication assists both the auditor and the Audit and Governance 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 Governance committee and supports the Audit and governance 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 Authority's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from Herefordshire Council management. The Audit and Governance 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 2021/22?</p>	<p>Key issues will be the ongoing impact of the economic downturn, inflationary pressure and the cost of living crisis, which is likely to impact the financial statements, for example in asset valuations/impairments and debt recovery.</p> <p>There are no significant changes to the Code of Practice, and the council have decided not to early adopt IFRS16.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Herefordshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting policies are reviewed and updated on an annual basis to ensure that existing policies are still correct and any new policies are added. There are no new policy additions for 22/23, but the accounting policy note has been split so that accounting policies are stated under each relevant note to the financial statements. Accounting policies that are not material to the financial statements have been removed as part of our de-cluttering process.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Financial instruments comprise loans (debtors), investments, cash and cash equivalents, accounts receivable debtors, loans (creditors), accounts payable creditors and PFI liabilities. Financial instruments are accounted for in accordance with IFRS9.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>None in 22/23.</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? If so, what are they?	An impairment review is carried out as part of year-end procedures. We are not aware of any circumstances so far that would indicate impairment for 22/23.
6. Are you aware of any guarantee contracts? If so, please provide further details	We are not aware of any guarantee contracts for 22/23.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	HC have outsourced many of the areas that could give rise to insurance claims, including highways maintenance, parks and open spaces maintenance and waste collection. We do not hold housing stock, and schools have their own insurance arrangements. There are no outstanding litigation cases for insurance.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Herefordshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The council has utilised a number of different solicitors during the year for purposes including planning and children's proceedings. The provision ranges from acting as agents on discrete matters, to full conduct of a matter.</p> <p>A ledger extract of all transactions on the legal professional fees account code has been provided up to month 9 for 2022/23.</p>

General Enquiries of Management

Question	Management response
9. Have any of the Herefordshire Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	We are not aware of any for 22/23.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Wilks Head & Eve (asset valuations), Hilco (Energy from Waste asset valuation), Link Group (Treasury Management advisors), Mercers (Actuary), Analyse Local (NNDR appeals), PWC (transformation).
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Assets will be assessed for credit loss provision as part of year-end procedures. We are not aware of any circumstances so far that would indicate a provision may be required for 22/23.

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 Committee and management. Management, with the oversight of the Audit & Governance 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 Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Herefordshire 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 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 Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Governance 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 Herefordshire Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Herefordshire 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 Authority's risk management processes link to financial reporting?</p>	<p>Yes. The council has a robust financial control framework, supported by financial procedure rules and an independent internal audit function. The council has a Counter Fraud Manager who is responsible for identifying and responding to issues relating to controls to prevent fraud, and also cases of fraud. Reports produced by the internal audit function and the Counter Fraud Manager are reviewed regularly by the Audit and Governance Committee.</p> <p>The processes for compilation of the Annual Governance Statement include Manager Checklists which inform the Director Assurance Statements and these include questions on risk and risk of fraud. These are reviewed by the Deputy section 151 officer, who also has responsibility for the financial statements.</p> <p>The Internal Audit Plan prepared by SWAP is prepared with reference to council's key risks and is reviewed on a cyclical basis to ensure it remains current and addresses new and emerging risks.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Those most at risk of fraud are considered to be low value transactions with manual interventions.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Herefordshire Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>Incidents of actual, suspected or alleged fraud are included within the Annual Fraud Report. There were 50 new corporate fraud cases, 64 concessionary travel fraud cases and 25 cyber fraud attempts dealt with by the council counter fraud team during 22/23. A copy of the Annual Fraud Report has been provided.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The council's Risk Management Plan documents how risks should be identified, recorded, monitored and communicated. Risks are monitored through Directorate and Corporate Risk Registers.</p> <p>The Audit & Governance Committee are responsible for ensuring that the council's risk management process is carried out effectively and information is reported annually and through the quarterly Internal Audit updates. Cabinet oversee risk management as part of the quarterly performance monitoring on the Budget & Performance Report. Individual Cabinet members regularly review risks within their portfolio as part of Cabinet Member Briefings.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Herefordshire Council where fraud is more likely to occur?</p>	<p>It has been identified that the residual risk of fraud is higher within some specific service areas across the Council. These include, but are not limited to the following;</p> <ul style="list-style-type: none"> • Council Tax – specifically reliefs, reductions and exemptions within the Revenues service • Business Rates – Specifically Business Rates avoidance • Blue Badges - Disability Parking Permits • Adult Social Care - specifically in Direct Payments, Financial Assessments, Court of Protection, Residential Care/ Supported Living facilities • Procurement – specifically where no formal tendering process is undertaken • Grants – specifically grant schemes aimed at administering funds for third party (individual and business sector) applicants • Finance / Payroll – External mandate fraud requests to change bank account details to a fraudulent account(s) • Insider fraud - the insider fraud threat has risen nationally across UK public and private sector organisations and is it a considered to be a higher risk due to the economic circumstances with the Cost of Living Crisis.

Fraud risk assessment

Question	Management response
6. What processes do Herefordshire Council have in place to identify and respond to risks of fraud?	The council has a Counter Fraud policy, Whistleblowing policy and Counter Fraud Strategy in place. These are prominent on the council website and detail the process for reporting potential fraud. The Counter Fraud Manager is responsible for identifying and responding to risks of fraud, which includes pro-active management through data matching exercises.

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Herefordshire 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)? If so, please provide details</p>	<p>The council's internal control framework is supported by the Risk Management Strategy to provide a strong financial framework. The internal audit function tests the operating effectiveness of the control framework and regularly reports to management and the Audit & Governance Committee where weaknesses are identified.</p> <p>The process to prepare the council's Annual Governance Statement considers assurance from a variety of sources to determine the effectiveness of the overall control environment – these include external regulators and inspections, internal and external audit, governance teams, Manager Checklist and Director Assurance Statements.</p> <p>Policies and procedures which govern our business process are designed to provide separation of duties to reduce the risk of fraud and collusion and exception reporting, control account reconciliations and analytical review processes are used to identify fraudulent transactions and activity.</p> <p>We are not aware of any instances where there has been override of controls, or inappropriate influence for 22/23.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>We are not aware of any areas where there is potential for misreporting. The financial statements are subject to review by The Deputy Section 151 officer to reduce the potential for misreporting.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Herefordshire Council's 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? Have any significant issues been reported? If so, please provide details</p>	<p>The council has policies to communicate and encourage ethical behaviours including Counter Fraud policy, Whistleblowing policy, Code of conduct for employees and members. These are on the council website and intranet and detail the process for reporting concerns.</p> <p>Mandatory training for employees includes fraud awareness and prevention and employee code of conduct to highlight the importance of ethical behaviour annually. This training includes information on what types of fraud indicators staff might identify, the various types of fraud effecting public sector services, and the different routes on how to report fraud to the counter fraud service.</p> <p>In order to ensure external referrals can be made efficiently, the Council has introduced a new external fraud referral platform on the main Council webpage, inclusive of a referral form and fraud hotline.</p> <p>Details of fraud referrals that were received during the previous calendar year are outlined within the Council's Annual Fraud Report.</p>
<p>10. 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 no posts which have been determined as high risk from a fraud and corruption perspective.</p>

Fraud risk assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are identified and monitored through routine reporting procedures. Risks associated with fraud due to related party transactions are mitigated through Member/Officer requirements to disclose all relevant relationships and transactions at Council and Committee meetings and via the Council's Registers of Gifts/Interests. As part of year end procedures, a review of Companies House is performed to check for any undisclosed related party relationships.</p> <p>We are not aware of any related party transactions that could give rise to instances of fraud.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Herefordshire Council?</p> <p>How does the Herefordshire Council 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>Fraud and risk issues are reported on a quarterly basis to Audit & Governance Committee through reports from internal audit and the Counter Fraud Manager. The Audit & Governance Committee exercises oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit reports, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Council has been contacted by whistleblowers during the last financial year. In each case the Council's whistleblowing policy has been followed. The matters have been investigated where appropriate by the service area or independent person and dependent on the findings, led to changes where necessary or have been dismissed (where appropriate).</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>There have been no referrals under the Bribery Act received by the council during 22/23.</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 Committee, is responsible for ensuring that Herefordshire 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 Audit & Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware 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 Herefordshire Council's have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Council's Constitution identifies the Monitoring Officer as the individual responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet. The Monitoring Officer advises the Audit and Governance Committee on any areas of concern.</p> <p>We are not aware of any changes to the regulatory environment that would significantly impact the financial statements for 22/23.</p>
<p>2. How is the Audit & Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer advises the Audit and Governance Committee on any areas of concern.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>We are not aware of any instances during 22/23.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>There are no outstanding litigation cases for insurance. Legal risk register has been provided.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Herefordshire Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Litigation or claims are managed by Legal services and by The Risk and Assurance Manager. These are reported to the Section 151 officer as they arise and considered as part of year end procedures.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>We are not aware of any reports from other regulatory bodies that indicate non-compliance for 22/23.</p>

Related Parties

Matters in relation to Related Parties

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

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Herefordshire Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority's;
- 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 Authority's, or of any body that is a related party of the Authority's.

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 Authority's perspective but material from a related party viewpoint then the Authority's 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 Herefordshire Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Herefordshire Council • whether Herefordshire Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>Related Party reviews are ongoing until the balance sheet date, but we are not aware of any changes to arrangements for 22/23.</p>
<p>2. What controls does Herefordshire Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Related party arrangements are reviewed annually to ensure that existing arrangements are still as disclosed, and any new arrangements are included in the disclosure. The review includes consideration of significant partnerships and other arrangements, review of officers and members declarations of interests, review of Companies House and discussions with directorate senior management and senior finance business partners. Transactions and balances are taken from the ledger and disclosed in the financial statements.</p>
<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 controls determined in the financial procedure rules.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Transactions with Related Parties are subject to controls determined in the financial procedure rules. Any significant transactions outside of the normal course of business would be subject to high level authorisation.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Herefordshire Council will no longer continue?</p>	<p>The Section 151 Officer attends CLT meetings where any issues would be discussed. As part of routine budget monitoring arrangements, the council's performance against the agreed budget is reviewed and any significant variances are investigated. The level and planned use of reserves is monitored throughout the year and over the medium term as part of the budget preparation cycle.</p>
<p>2. Are management aware of any factors which may mean for Herefordshire Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Funding of statutory services is considered as part of the Medium Term Financial Strategy process. We are not aware of anything for 22/23.</p>
<p>3. With regard to the statutory services currently provided by Herefordshire Council, does Herefordshire Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Herefordshire Council to cease to exist?</p>	<p>The council expects to deliver statutory services for the foreseeable future.</p>

Going Concern

Question	Management response
<p>4. Are management satisfied that the financial reporting framework permits Herefordshire Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>The financial statements for 22/23 will be prepared on a going concern basis. We are not aware of any going concern issues that would indicate this would not be appropriate.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 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 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>A review of accounting estimates is completed annually. Those accounting estimates which are deemed to be a potential material misstatement that are included in the accounting estimates disclosure note are:-</p> <ol style="list-style-type: none"> 1. Land and buildings valuation 2. Property, plant and equipment depreciation 3. Pensions net liability valuation
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	<p>The risks relating to accounting estimates are identified, assessed and managed by the Corporate Finance team led by the section 151 officer.</p>
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>For the key accounting estimates, the methods and assumptions are provided by professional advisors (property valuers and actuaries).</p>
4. How do management review the outcomes of previous accounting estimates?	<p>For the key accounting estimates, the valuations are re-visited each year and the estimates are updated in the financial statements. Asset valuations are completed on a rolling programme. An assessment is made on the risk of material misstatement for those assets not included in the current valuation. Pension liabilities are valued annually.</p>
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	<p>None for 22/23.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>External professional experts are used for those accounting estimates assessed to be at material risk of misstatement in the financial statements, because these require specialist knowledge/skills. Property valuers are utilised for land and building asset valuations (Royal Institute of Chartered Surveyors registered), and an actuary is utilised for pension liability valuation (Institute and Faculty of Actuaries registered). We also engage Treasury Management advisors to provide fair values for financial instruments.</p>
<p>7. How does the Authority's determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The processes for arriving at the accounting estimate are reviewed for areas requiring a control activity by a finance professional, by considering what could go wrong in the process, and what control could be put in place to prevent an error.</p> <p>The source data for all accounting estimates is considered and controls are designed to reduce the risk of error.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Controls checks are performed as part of year end procedures to review how the estimate has been arrived at. This will include check and challenge of the reports provided by our external experts.</p> <p>Where source data has been provided to inform estimates, checks are carried out to ensure that these have been accurately reflected in the resulting estimates. Eg. property areas for asset valuations and employee numbers for pension liability valuations.</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>Accounting estimates are controlled and managed by Financial Accounting Managers/Senior Finance Business Partners. These are reviewed and challenged by the Chief Accountant and the Head of Strategic Finance(Deputy S151 Officer).</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any 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)? If so, what are they?</p>	<p>Significant judgements that are disclosed in the financial statements are for group boundary and schools assets. Schools assets will be subject to accounting estimates due to land and building valuations. This is disclosed in the critical judgements note.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>A thorough review of all potential accounting estimates has been carried out for the 22/23 year-end (working paper is available upon request), where each estimate has been considered individually. This has resulted in an accounting estimates disclosure note that only includes those accounting estimates at risk of material misstatement due to estimation.</p>
<p>12. How is the Audit & Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Accounting estimates are considered by management prior to the year end and any considered to be material to the accounts are disclosed in the financial statements. The draft financial statements are presented to the Audit and Governance Committee for review. Material accounting estimates will be reported to A&G Committee alongside the draft financial statements.</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	Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	Control activities are:- Check opening asset values to closing asset values on FAR. Check with property for any changes. Detailed work instruction to the valuers. Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation.	External valuers used are Wilks Head & Eve LLP (for assets generally) and Hilco (for Energy from Waste asset).	The uncertainty over asset values is increased due to economic uncertainty, rising inflation, and the impact this has on the interest rates. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. The disclosure in the estimation uncertainty note (note 4) considers a variation of 5% in the net book value of PPE. This gives an indication of the sensitivity of the revaluations on the balance sheet.	No change
Investment property valuations	Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	Control activities are:- Check opening asset values to closing asset values on FAR. Check with property for any changes. Detailed work instruction to the valuers. Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation.	External valuers used are Wilks Head & Eve LLP (for assets generally).	There is uncertainty over investment property values due to the impact the economic downturn has on rental income. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	No change

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	Those assets subject to external valuation are assigned a useful economic life (UEL) by the external valuers. Those assets not subject to external valuation are assigned a UEL by an officer from the council with relevant subject knowledge within expected ranges.	<p>Control activities are:-</p> <p>Check of FAR net book values to prior year. Reasonableness check on UELs. Check of calculation cells Reasonableness check on overall depreciation charge. Check of assumptions used by external valuer.</p> <p>Engagement with colleagues in Service to confirm UELs.</p>	External valuers used are Wilks Head & Eve LLP (for assets generally).	<p>The uncertainty over UELs is increased due to economic uncertainty and the impact this has on the repairs and maintenance programmes. Assumptions are:-</p> <ul style="list-style-type: none"> • There are no residual economic values to assets • There is no depreciation chargeable in the first year of the asset • That the UEL applied to each asset <p>Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.</p> <p>The estimation uncertainty disclosure in the financial statements (see note 4) ascertains the estimated increase in the depreciation charge that would occur if the UELs were reduced by 1 year. This gives an indication of how sensitive the depreciation charge is to changes in UELs.</p>	No change

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	Methods and assumptions used are industry standard and are listed in a report issued by the actuary	Control activities are:- Check of source data to ledger. Check of source data used by Mercers to source data sent. Overview of assumptions used by Mercers. Challenge of any movements in IAS 19 figures since the prior year.	Mercers are the actuaries used to estimate the net pension liability.	There is uncertainty over this estimate due to the reliance on many complex and interacting assumptions. These risks are addressed through the use of a qualified professional actuary, who uses methodologies and assumptions as recognised by The Institute and Faculty of Actuaries (IFA). The actuary supplies calculations of how changes in certain assumptions impact the net pension liability on the balance sheet. These are disclosed in the estimation uncertainty disclosure (note 4).	No change
Loans	Methods used by Link Group are included in their portfolio valuation	Control activities are:- Check of ledger balances to loan agreements. Check of ledger balances to portfolio valuation. Reasonableness check on assumptions used. Comparison of balances and fair values to the prior year.	Treasury Management advisors (Link Group) provide a portfolio valuation of financial assets and liabilities at the year-end.	The council has loans from the bank and public works loan board (PWLb). These are valued on the balance sheet at amortised cost. The loans are also included in fair value disclosures, the fair value is provided by Treasury Management advisors (Link Group) based on accepted methodologies and assumptions. Fair value disclosures compare the balance sheet carrying value to fair values based on the premature repayment rate and also based on the new loan rate.	No change

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	Each manually journalled debtor or creditor is individually considered and calculated.	Control activities are:- Review of ledger for accruals needed. Comparison to prior year for accruals needed. Calculation of accrual and completion of QA checklist for each accrual. Review and challenge for significant accruals. Review of outturn to forecast for missing/over accruals.	No	As the council operates a no PO/no pay policy, most expenditure accruals are system driven by the PO accrual process. Manually journalled debtors and creditors are not material balances on the balance sheet, and are therefore unlikely to result in a material misstatement due to estimation uncertainty.	No change

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	Each provision is individually considered and calculated.	Control activities are:- Review of provisions balance to prior year. Review of insurance/legal/property registers for potential areas of provision. Review of provision calculation working papers for evidence and reasonableness.	No	Provisions (excluding impairment allowances) are not a material balance on the balance sheet, and are therefore unlikely to result in a material misstatement due to estimation uncertainty.	No change
Credit loss and impairment allowances	Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors.	Control activities are:- Review of aged debt reports. Comparison to prior year allowance. Review and challenge by The Financial Accounting Manager.	No	There are 8 categories of impairment allowances, none of which are individually material. Categories are housing benefits, council tax, business rates, court costs, housing, fairer charging, business support grants and a general impairment allowance. Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors. A general impairment allowance is assessed to be 50% of debtors over 90 days.	No change

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?
PFI Liabilities	The liabilities are taken from the financial models set up at the start of the PFI schemes.	Control activities are:- Check of balances from ledger to financial model. Review of balances compared to prior year.	Yes	The liabilities on the balance sheet relating to the three PFI schemes are based on financial models which are subject to estimates and assumptions.	No change



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