



# Informing the audit risk assessment for Kent County Council 2021/22



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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 Kent County Council's external auditors and Kent County Council's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

## Background

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

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- 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 Kent County Council's management. The Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Continued impact of COVID 19 on the financial statements for 2021/22. Possible increase in costs in relation to inflation and war in Ukraine
2. Have you considered the appropriateness of the accounting policies adopted by Kent County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Yes  No
3. Is there any use of financial instruments, including derivatives? If so, please explain	Yes, but no derivatives
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No

## 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?	Potential material change in value of land and buildings.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
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	No, Not aware of any loss contingencies or unasserted claims that may affect financial statement.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Kent County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Invicta Law, the Council's retained (and owned) legal provider. Bevan Brittan LLP, Browne Jacobsen, Burgess Salmon. No significant or material litigation from prior years.

## General Enquiries of Management

Question	Management response
<p>9. Have any of the Kent County 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</p>	<p>No – some low level fraud has been reported but it would not affect the financial statement.</p> <p>No, -none from a legal perspective that would materially affect the financial statement.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>PWC working with us on Strategic Reset Programme and Capital Reporting Solution</p> <p>Itelligenti – working on financial reporting solutions</p> <p>Futuregov for Financial Assessments</p>
<p>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</p>	<p>Expected credit losses have been considered. Trade debtors will factor in expected credit losses.</p>



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

As Kent County 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 Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Kent County Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Has Kent County 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 risk is considered to be minimal. Controls are in place through the budget setting, budget monitoring and year-end analytical review. We now have details on a business intelligence dashboard of cost centres per budget manager, key service lines and manager analysis enabling an easily accessible view at a detailed level allowing us to target and challenge any budget manager where we perceive there may be anomalies. We also have a regular balance sheet management review. Variances must be explained and validated. Significant changes from previous year's spend must also be explained.</p> <p>Fraud risks have been developed through the analysis of fraud referrals both within the organisation and through engagement with other public/ private sector organisations and publications such as fighting fraud locally. This has resulted in an overall risk of fraud included in the corporate fraud risk register (CRR0049). There is a specific risk within Libraries, Registration and Archive (LRA0008) on internal fraud.</p> <p>There is also a specific risk in relation to employee pay and expenses (PC0004). There is a also a specific fraud risk relating to procurement fraud (SC006). These risks have been considered and relevant controls have been put in place to help mitigate against the risk event. In addition to the above work has progressed with engaging with Divisional Management Team in embedding fraud risk assessments and the mapping out of controls to mitigate the risk, this work has been delayed due to Covid, however we have only 6 divisions to work with to complete this exercise, once done the risk assessments form part of our relationship management meetings with divisions.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Mandate Fraud, financial assessment in respect of personal budgets, use of direct payments, imprest accounts, IR35 Compliance, procurement fraud have been considered as most at risk, however these have not resulted in values of fraud or error that would be material to the accounts. In addition Blue Badge fraud remains the highest referral fraud type with reputational damage being the main risk opposed to financial risk.</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 Kent County Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>We are aware of instances of actual, suspected or alleged fraud, errors or other irregularities</p>
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>A Counter Fraud Report is provided to the Governance and Audit committee which is also provided for information to the Corporate Management Team.</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 Kent County Council where fraud is more likely to occur?</p>	<p>Mandate fraud has evolved, we have seen two attempts made through the hacking of suppliers email accounts to facilitate a change of bank account. This saw an actual loss of £105,000 which was recovered in full from the bank and a further attempt which if actioned would have seen a loss of over £1m due to the size of payments made to the supplier. Two factor authentication failed (human error) on the second attempt. Advice provided to the control team and additional verbal verification via a telephone call is now in place.</p> <p>Direct payment misuse has seen a slight increase in 2021/22 but not to a material level.</p> <p>Areas of concern are with social care – blue badge (low value high volume) and direct payments.</p>

## Fraud risk assessment

Question	Management response
6. What processes do Kent County Council have in place to identify and respond to risks of fraud?	<p>There is through the report to G&amp;A analysis of the fraud types (existing and emerging), volumes and amounts, this is derived from the reporting for financial irregularities by services to the Counter Fraud Team, this processes is a requirement of the financial regulations of the Council.</p> <p>The Anti Fraud and Corruption Strategy has been updated to reference any new initiatives, policies or strategies to be risked assessed for fraud by a Counter Fraud Specialist. This requirement is still being embedded within the organisation and is raised through relationship management meetings.</p>

## Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Kent County Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <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>Each year an annual audit plan is developed that takes into account the risks of the council, including fraud risks. Where there is a significant risk (such as imprest accounts) this has prompted a full review to assess the effectiveness of internal controls.</p> <p>In addition the Counter Fraud Team have developed and are progressing a work programme to assess the Counter Fraud Culture within business units to support management in ensuring there is a robust culture within the 1st and 2nd lines of defence.</p> <p>Standard fraud awareness sessions have been delivered, in particular to Commissioning Officers on fraud risks within the commissioning life cycle. Infrastructure on fraud and bribery risks. School Finance officers, senior leaders and governors. In addition a school anti-fraud policy has been updated to include a fraud risk assessment for the schools to complete and embed into their risk management framework.</p> <p>Not that we are aware of, nothing has been reported by management in this respect.</p> <p>Participation in the NFI helps detect fraud and error within the councils systems.</p> <p>Yes, this is a risk applicable to any budget manager, as their performance against budget is a factor in their annual performance assessment. However, this is a relatively minor risk and is mitigated by the budget monitoring, schemes of delegation and year end processes, as well as setting realistic budgets to start with. The creation of KCC Companies does increase risk but appropriate controls /governance are in place.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Internal Audit are part of a task and finish group looking at IR35 arrangements, there may be from this work some adjustments needed on the level of income tax and national insurance contributions.</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Kent County 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? Have any significant issues been reported? If so, please provide details</p>	<p>There are KCC standards which include the Nolan principles, staff code of conduct, Anti-Fraud and Corruption Strategy and Anti Bribery Policy. There is e-learning provided to support the prevention and detection for fraud. There is a whilst blowing policy which encourages staff to report there concerns, the Counter Fraud Team is included in this policy as an alternative to raising concerns with management.</p> <p>As part of Fraud Awareness presentations whistleblowing is covered.</p> <p>Staff are expected to raise all financial irregularities with Internal Audit. Significant issues that have been raised have resulted in audits being conducted, such as imprest accounts.</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>Currently KR16 and above have delegated authority to spend up to £1m without member decisions, these posts are considered high risk due to no separation of duty being required, however in practice, Heads of Service will present business cases to support spending the councils money.</p> <p>There is an enhanced vetting process in place when recruiting into a KR16 and above, this ensures that not only the information provided on the application form is correct, but also ensures there are no financial or reputational risks to the authority.</p> <p>Furthermore through the development of the fraud, bribery and corruption risk assessment, further areas of high risk will be identified with relevant controls being identified to mitigate the risk, for example regular reminders on declarations of interest, budget monitoring, separation of duties, rotation of duties.</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>As part of the NFI exercise we are alerted to potential conflicts of interest, these are investigated and where needed a formal investigation is progressed, however the matches have resulted in the need to update declarations of interests for members and officers who sit on charity boards as part of their position within KCC.</p> <p>Regular reminders of declarations are issued. As part of the supplier set up process requestors are required to confirm there is no conflict of interest when setting up a supplier, it also requires the budget holder to authorise the setting up of the supplier, as well as authorisation from the commissioning category manager. In addition reminders on whistle blowing procedures are issued to all staff to prompt any concerns being raised with either management or Internal Audit.</p> <p>Internal Audit has conducted an audit of Declarations of Interest – Members in 2021/22. The audit provided Adequate levels of assurance with 3 issues being raised for management to address.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How does the Governance and Audit 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>A Counter Fraud Report is produced to the Governance and Audit Report at each meeting. This includes issues and risks identified during the reported period.</p> <p>Governance and Audit Committee has the ability to call in any manager to question their arrangements in addressing the risks of fraud.</p> <p>Relevant enquiries have been made by members of fraud figures and trends.</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>Yes we have had a number of concerns raised through the whistle blowing hotline, depending on the nature of the concern these have either been addressed through management engagement or through an investigation by a member of the Counter Fraud Team.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>One referral was received but not progressed due to insufficient information being provided.</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 Governance and Audit Committee, is responsible for ensuring that Kent County 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 Governance and Audit 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 Kent County 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>In addition to audit activity, contractual provisions are in place with legal services providers to escalate issues of legal compliance to the Monitoring Officer. Provisions on compliance with laws and regulations are included in the Council's Operating Standards and Constitution which are dip sampled through meeting attendance and decision review. Monitoring Officer is a Member of CMT and Corporate Board. Annual Governance Statement includes questions on compliance that are reviewed and tested throughout the year.</p> <p>The Monitoring Officer now also meets weekly with the Leader and Head of Paid Services to discuss activity and early areas of legal risk and non compliance.</p> <p>Monitoring Officer seeks assurance on relevant items and has issued s5 reports in previous 2 financial years where appropriate.</p> <p>There are no material changes to the council's regulatory environment likely to have a significant impact on the financial statement.</p>
<p>2. How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the provision of an annual standalone report on the Annual Governance Statement.</p> <p>Similarly, regular reporting on progress against the actions identified is brought before the Committee mid year. In each calendar year therefore there are a minimum of 3 reports relating to this in addition to activity on items like the Code of Corporate Governance etc.</p>

## Impact of laws and regulations

Question	Management response
<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>For noting, the Council's Monitoring Officer did issue a Section 5 report within the relevant period relating to the Council's inability to meet statutory duties in relation to unaccompanied asylum seeking children but this does not have an ongoing impact on the 2021/22 statements save for as expressly referred.</p> <p>The Council is currently reviewing activity regarding SEND transport as a suspected non-compliance but this will not have a material impact on 2021/22 statements.</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>No material claims received at the time of completion.</p>
<p>5. What arrangements does Kent County Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Chief Accountant liaises with Legal Services team to capture all potential claims. Legal estimate the potential 'loss' as best they can. This is then reported to this Committee through the Statement of Accounts.</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>No, but we have made a disclosure in relation to IR35 determination errors</p>

# Related Parties

## Matters in relation to Related Parties

Kent County 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 Kent County Council;
- associates;
- joint ventures;
- a body 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 body 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 Kent County Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Kent County Council</li> <li>• whether Kent County Council has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	No
<p>2. What controls does Kent County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	Members and Senior Officers are required to complete declarations of interest which are reviewed during the year end closure. Information is also collected via the early return process.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	Normal procurement and payment authorisation rules.
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	The Financial Regulations and the delegation matrix sets out the responsibilities that are to be followed. There are the 'how to buy' and other guidance on procurement process. All payments and procurement follow the same rules.

# 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 Kent County Council will no longer continue?</p>	<p>The main processes/controls that the Council currently operates include the following:</p> <ul style="list-style-type: none"> <li>• Annual budget setting and medium-term plan setting out spending plans. Although the budget does not narrowly distinguish spending between statutory and discretionary services we have the ability to show this split if necessary to identify reductions in statutory spend</li> <li>• Regular Budget Monitoring</li> <li>• Performance Monitoring based on a RAG rating of 33 Key Performance Indicators where green identifies where performance is at or above target, amber where performance is below target but above a floor level and red where performance is below the floor level</li> </ul>
<p>2. Are management aware of any factors which may mean for Kent County 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>Potentially inadequate funding and/or unaffordable changes in costs or demand. Again these would be identified through budget planning and budget/performance management and addressed accordingly.</p>
<p>3. With regard to the statutory services currently provided by Kent County Council, does Kent County 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 Kent County Council to cease to exist?</p>	<p>Yes, although the position will need to be kept under review as part of budget planning</p>

## Going Concern

Question	Management response
4. Are management satisfied that the financial reporting framework permits Kent County 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?	Yes, we are satisfied that the arrangements allow the Council to prepare financial statements on a going concern basis



# 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 Governance and Audit Committee members:

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

We would ask the Governance and Audit 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?	These are set out in the Statement of Accounts, please see Note 5, page 34 of the 2020/21 accounts.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	Through discussions with valuers and actuaries.
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>Through use of external advisors</p> <p>PPE – Appointment of external valuer – discussion of valuation basis and useful lives. Any changes required discussed with Head of Finance Operations. Use of K2 asset management database for source data. Methodologies for estimation uncertainties in Note 5 of the accounts were agreed with external audit.</p> <p>For IAS 19 confirm with the actuaries with methods and assumptions prior to the preparation of the IAS 19 report and relevant disclosures.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>We have a rolling programme of revaluations so any changes required are identified as we revalue the asset base. Review of accounts by Head of Finance Operations including prior year comparators.</p> <p>Annual review accrual limits, expected credit losses and impairments to ensure they still remain appropriate for the following year</p>
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	<p>Expected Credit Losses – an estimation of future losses has been included for Trade Debtors. This is not expected to be a material change.</p> <p>No other changes to estimation processes.</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>Have highly skilled, qualified and experienced accounting team. Rigorous procurement process for our valuers.</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>We use our professional judgement to determine what controls are required e.g. thorough review and challenge of asset valuations provided by external valuer. We review and challenge the outcomes of any reports received.</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>Control activities are subject to a review process. Any concerns identified are raised as necessary with the management team to address and resolve.</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"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Head of Finance Operations and S151 Officer review of accounts. Training is provided to Governance and Audit Committee.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
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?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Management are satisfied with the arrangements due to the analysis and modelling that is undertaken.
12. How is the Governance and Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Assurance is provided through the detail set out in the Statement of Accounts The Committee attend briefing sessions that set out the information and are an opportunity for the Committee to ask questions and raise any queries in addition to the formal committee meeting.

## 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	Current Value – either Existing Use Value (EUV) or, if specialist asset where there is no market based evidence of current value– Depreciated Replacement Cost (DRC).	Annual review of PPE carrying amount undertaken to inform valuations required to ensure the balance sheet is materially correct.  Rolling programme of annual valuations.  Thorough review and challenge of asset valuations.	Yes	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion subject to thorough challenge and review of methodologies and resulting valuations.	No
Surplus asset valuations	Fair Value	As above	Yes	As above	As 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?
Investment property valuations	Fair Value	Annual revaluation as prescribed in the CIPFA Accounting Code of Practice.	Yes	As above	As above
Depreciation	Straight line basis over asset's useful economic life. Componentisation methodology.	Review of valuations including asset lives.	Yes	As above	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	<p>Roll forward method is used to value the liabilities. For 2021/22 for events that are deemed “material” will be measured under “stop-start” method.</p> <p>Valuations involve projecting future cashflows to be paid from the Fund. Cashflows include pensions paid to current members and those to future members.</p>	<p>Valuations are performed tri-annually and the rolling forward previous valuations should not materially distort the results.</p> <p>For ‘stop-start’ method we will review these events to ensure where material this method should be used.</p>	Yes – Barnett Waddingham	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion subject to challenge and review.	Yes – McCloud impact on current and projected service cost, as adjustment is required to the projected service cost from 1 April 2022 so no further allowance for the McCloud remedy is made.

## 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?
Fair value estimates for Financial Assets	Methods and models supplied by our Treasury Advisors Arlingclose. FV calculations also include 12 month expected credit loss calculation for the investments held at amortised costs the majority of which are secured bonds. For 2020/21 a multiplication factor of 131% of historic default rates was used to calculate the ECL which was around £16K for our portfolio and not seen as material. We anticipate a similar factor to apply for 2021/22.	Valuations are provided annual	Yes	Apply market prices data from Bloomberg and other sources as appropriate dependent on fair value hierarchy.	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?
PFI Liabilities	PFI operator models for source data. Accounting models based on disaggregation of unitary charge.	Review of actual unitary charge compared to operators model on an annual basis	No	Annual review of the models and comparing the outcome to previous iterations.	No



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