

Informing the audit risk assessment for South Hams District Council 2021/22

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Purpose

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

Background

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

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

Communication

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

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

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The Covid pandemic remains a key event in terms of the financial statements for 2021/22. The Council has continued to receive various sources of COVID funding and specific grants during the year and has paid out significant business grants.</p> <p>Valuations of Property, Plant & Equipment and Investment Properties.</p> <p>Accounting treatment of COVID grants received and any subsequent repayments.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by South Hams District Council?</p> <p>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>Yes the appropriateness has been considered – they are considered appropriate.</p> <p>No</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>A summary of Financial Instruments carried on the Balance Sheet are shown in Note 14 to the Accounts.</p> <p>The Council has a £1.5m Investment with the CCLA Property Fund and a £2m Investment with the CCLA Diversified Income Fund. These are non-specified investments. These investments were made in April and May of 2018.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No – see comments in Section 1 about the Covid pandemic in general.</p> <p>Extra work carried out in relation to Covid19 and issuing grants.</p> <p>On 31st March 2022, the Council agreed to make a grant payment of £10,000 to the Ukraine Humanitarian Appeal. This payment will happen in 2022/23 and has been accrued for.</p> <p>The Council has been in contractual discussions with its waste contractor, FCC, during 2021-22.</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?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	No. The main two contracts the Council has is for the delivery of waste services with FCC and for the delivery of leisure services with Fusion Leisure.
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
8. Other than in house solicitors, can you provide details of those solicitors utilised by South Hams District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Yes – a list will be provided during the Interim Audit and at the end of the year when the ledger is closed.</p> <p>There are no known contingencies from previous years being worked on.</p> <p>The Council has been in contractual discussions with its waste contractor, FCC, during the year.</p>

General Enquiries of Management

Question	Management response
<p>9. Have any of the South Hams District 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</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Link Services have advised on Treasury Management advice for the year</p> <p>Local Government Futures have given advice to the Devon Business Rates Pool on the decision to continue to pool for 2022/23 and advice on the Plymouth and South Devon Freeport with regards to business rates and business rates relief.</p> <p>A list will be provided at the end of the year when the ledger is closed.</p> <p>A strategic financial report from an independent local government advisor was commissioned on the Council's arrangements with its leisure contractor, Fusion Lifestyle. This was the subject of a report to Council on 31 March 2022.</p> <p>The Council has also commissioned external advice on its waste service and the current contractual discussions with its waste contractor, FCC.</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>No assets have been identified.</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 Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As South Hams District 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 Committee regarding its processes for identifying and responding to risks of fraud; and
- communication to employees regarding business practices and ethical behaviour.

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

Fraud risk assessment

Question	Management response
<p>1. Has South Hams District 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's Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for South Hams District Council. This is done through the following: <i>Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy.</i> The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches. <i>The System of Internal Audit:</i> as described below, related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud.</p> <p>The Senior Leadership Team consider it to be unlikely that the financial statements are materially misstated due to fraud.</p> <p>6 monthly reports on risk management are presented to the Council's Audit Committee. The risk management matrix used makes an assessment of the financial impact and the scoring is based on a range of financial impacts.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The area most at risk of Fraud is Housing Benefit Fraud and fraud of the Business Grants administered by the Council.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within South Hams District Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>Not within the Council or within Council departments.</p> <p>Fraud risk assessments have been completed for the administration of Business Grants during the year.</p> <p>Suspected fraud on the business grants has been reported to the Devon Audit Partnership fraud team.</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>Any suspected fraud has been reported and investigated through the Devon Audit Partnership.</p> <p>The internal audit manager reports quarterly on fraud issues to the Council's Audit Committee.</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 South Hams District Council where fraud is more likely to occur?</p>	<p>Please see details in 3.</p>
<p>6. What processes do South Hams District Council have in place to identify and respond to risks of fraud?</p>	<p>The Audit Committee receives a six monthly report on strategic risks. The Audit Committee also receives an annual report from the Statutory Officers' Panel (consisting of the Chief Executive, the S151 Officer and the Monitoring Officer) and one of the areas considered is Fraud. The Internal Audit Manager also reports on Fraud as part of his annual internal report to the Audit Committee.</p> <p>Fraud risk assessments have been completed for the administration of Business Grants during the year.</p> <p>Any suspected fraud has been reported and investigated through the Devon Audit Partnership.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for South Hams District 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 Internal Control environment is reported on a quarterly basis to the Audit Committee as part of the regular reporting of the Internal Audit Manager.</p> <p>A 'follow up' report is done on all internal audits on an annual basis also.</p> <p>Housing Benefit fraud and Business Grants fraud are the highest risk areas.</p> <p>Post payment assurance reporting for business grants. Preventive controls are designed into systems to help stop fraud at the gateway for application processes. Reconciliations, segregation of duties, formal schemes of delegation and authorisation are in place for financial transactions. Compensating controls such as counter fraud measures.</p> <p>See above</p> <p>None known of.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None known of to the S151 Officer</p>

Fraud risk assessment

Question	Management response
<p>9. How does South Hams District 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>The Anti Fraud, Corruption and Bribery arrangements, whistle blowing policy and other ethical standards are publicised throughout the Council and to a wider audience outside through training, leaflets, the internal computer network and the Council's website etc. The updated whistle blowing policy was considered by the Audit Committee in March 2022 and will form part of the May 2022 staff briefings.</p> <p>Reliance is placed on the process and the Council's Constitution, which includes the following: After consulting with the Head of Paid Service and the Monitoring Officer, the Section 151 Officer will report to the full Council and the Council's external auditor if it is considered that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Council is about to enter an item of account unlawfully; After consulting with the Head of Paid Service and Section 151 Officer, the Monitoring Officer will report to the Full Council if it is considered that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.</p> <p>There are processes in place to provide members of the Audit Committee, and other member bodies, with the assurance that when considering agenda items all relevant laws have been complied with, which includes: A formal system of consultation for all reports to member bodies, which includes advice on the legal implications from qualified solicitors and advice on financial implications by qualified accountants; The S151 Officer is not aware of any significant issues raised. Suspected fraud on business grants has been reported to the Devon Audit Partnership to investigate.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?</p>	<p>All 5 posts within the Senior Leadership Team – being the Chief Executive, the Deputy Chief Executive, the S151 Officer, the Director of Place and Enterprise and the Director of Governance and Assurance. Through the recruitment process (and rigorous selection process and references), through regular appraisals and assessment against the six IMPACT behaviours.</p>
<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 How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The S151 Officer is not aware of any.</p> <p>The Monitoring Officer holds a Register of Interests for Members and Officers.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the 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>The Audit Committee exercises overview of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control for the Council.</p> <p>This is done through the following: Anti Fraud, Corruption and Bribery Policy and Strategy, and Anti-Money Laundering Policy (this was recently considered by the Audit Committee at their March 2022 meeting):</p> <p>The Audit Committee considers and recommends to Council the approval of the Council's policies and zero tolerance position in relation to fraud and money laundering and monitors their use and any actions required to improve the control environment following alleged breaches.</p> <p>The System of Internal Audit: related reports to the Audit Committee include breaches of internal control and the Council's related Rules; Contract and Financial Procedure Rules as well as information on alleged fraud.</p> <p>Fraud issues on the Business Grants were reported to the Audit Committee during 2021/22.</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 S151 Officer is not aware of any.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No.</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 Committee, is responsible for ensuring that South Hams District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit 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 South Hams District 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>Every Committee and Council report has to state the legal implications of the report and state the legal powers that are being used to make a decision.</p> <p>The Monitoring Officer and the S151 Officer review all reports that are published and reports are 'signed off' by these Statutory Officers.</p> <p>Annual Governance process certifies that statutory obligations for the services managers are responsible for, have been understood and fulfilled.</p> <p>No</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal Audit reports, annual assurance opinion and results of the annual governance review process.</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>No</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 known of.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does South Hams District Council have in place to identify, evaluate and account for litigation or claims?	The S151 Officer and Monitoring Officer have regular meetings with the Chief Executive where any such items would be discussed. None known of.
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	No – None known of.

Related Parties

Matters in relation to Related Parties

South Hams District 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 South Hams District 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 South Hams District 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 South Hams District Council whether South Hams District Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No changes.</p>
<p>2. What controls does South Hams District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All Members and all of the Senior Leadership Team are required to complete a Related Parties Return in April 2022 following the Year End. Items disclosed on these returns are reviewed by the Finance Head of Practice, to assess whether they need to be disclosed within the Financial Statements. A register of Member and Officer interests is maintained.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>See comments above. None known of to the S151 Officer. If this situation arose, the S151 Officer would discuss it with the Monitoring Officer and the Head of Paid Service to ensure mitigating controls were put in place. Robust procurement controls are operated with contract authorisation limits.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>See comments above. None known of to the S151 Officer. If this situation arose, the S151 Officer would discuss it with the Monitoring Officer and the Head of Paid Service to ensure mitigating controls were put in place.</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 South Hams District Council will no longer continue?</p>	<p>The Council's Senior Leadership Team (SLT) meet twice a week and if this situation occurred all members of the SLT would be aware of this (including the S151 Officer). The Chief Executive and Deputy Chief Executive meet weekly with the Leader and Deputy Leader of the Council.</p>
<p>2. Are management aware of any factors which may mean for South Hams District 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>The S151 Officer is not aware of any factors that may mean that statutory services will no longer be provided or that funding for statutory services will be discontinued.</p>
<p>3. With regard to the statutory services currently provided by South Hams District Council, does South Hams District 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 South Hams District Council to cease to exist?</p>	<p>South Hams District Council expects to deliver its statutory services for the foreseeable future. There are no plans for South Hams District Council to cease to exist.</p>
<p>4. Are management satisfied that the financial reporting framework permits South Hams District 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>Yes management are satisfied that the financial reporting framework permits South Hams District Council to prepare its financial statements on a going concern basis. Revenue Budget Monitoring reports and Capital Programme Monitoring reports are reported regularly to the Executive. An annual budget and regular medium term financial strategy reports are considered by the Executive and Council throughout the year.</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 Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
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 Council has administered a significant amount of Business Grants on behalf of the Government. In addition, the Council has also received other Government Grants to administer. These amounts are material and will be highlighted in the relative parts of the Accounts e.g. the Collection Fund.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The most significant accounting estimates are reviewed when the actual data is known, to assess the accuracy of the original estimate.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	This is done on an individual basis with respect to the key accounting estimates.
4. How do management review the outcomes of previous accounting estimates?	This forms part of the post audit review of the closedown procedure.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes are envisaged at this early stage of the Accounts preparation process.

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>This is a judgement which is made on an individual basis e.g. bad debt provisions. Specialist knowledge is obtained where needed from experienced external advisers, e.g. business rates appeals.</p> <p>The Chief Finance Officer (S151 Officer) is a member of the Strategic Leadership Team (SLT). The finance team have knowledge acquired through professional qualifications and/or training.</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>The Chief Finance Officer considers these as part of their materiality assessment and also as part of dialogue with the Legal department in relation to any claims.</p> <p>Internal audit reports are considered where they report on any relevant control weaknesses.</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>Through the monthly budget monitoring exercise carried out and monthly reporting of financial data.</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>Financial monitoring reports are presented to the Senior Leadership Team/Executive and Audit Committee and any challenge is made on assumptions.</p> <p>Through the budget monitoring process, the Finance team consider the robustness of estimates and challenges these.</p> <p>Members of the Extended Leadership Team (ELT) and service managers provide updates if material on any significant developments and data provided from the debt recovery process.</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>Business Rates appeals The Council has been in contractual discussions with its waste contractor, FCC, during the year</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>A full review is undertaken each year by the Senior Revenues Specialist and the S151 Officer on business rates appeals. The Council also engages with Local Government Futures for their advice on this technical area. The Council has procured external advice on its waste service.</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Through the collation and approval of the annual accounts and accounting policies</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	Use of internal qualified valuers.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2021/22.	In house valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion. Valuers look at in terms of materiality, RICS and accounting guidance.	No
Investment property valuations	Use of external qualified valuers. Measured annually at Fair Value.	Valuations are performed annually	External valuations where appropriate	Degree of uncertainty inherent with any revaluation. Valuers look at in terms of materiality, RICS and accounting guidance.	No
Depreciation and estimated remaining useful lives	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year	See left box	Discussion with internal asset team and where applicable the Council as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	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	Staff are members of the Local Government Pension Scheme (LGPS), administered by the Devon County Council Pension Fund. The actuarial gains and losses figures are calculated by the actuary of the Devon Pension Fund.	The Council responds to queries raised by the actuaries and the administering body. Rely on calculations made by the actuary. The Council challenges any unusual movements or assumptions with the actuary.	The Council is provided with an actuarial report by the Pension actuaries.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No
Measurement of financial instruments including fair value estimates	Financial instruments are valued at fair value based on the advice of external treasury consultants and investment fund managers.	All financial instruments are reviewed at the year end and advice taken from professional advisors.	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	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	Method depends on the provision type – e.g. bad debt provisions are based on an aged debt analysis. Provisions are identified through monthly monitoring which flags any potential issues to management.	Each provision is separately reviewed by an accountant and a working paper is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid. The Council operates a de minimis policy for accruals. For revenue and capital expenditure the de minimis has remained at £5,000 for a number of years.	Regular budget monitoring provides rigorous analysis so that any accruals are highlighted and actioned throughout the year. Estimates are provided by budget holders wherever possible.	N/A	We use standard accruals accounting – accruals are based on expenses incurred that have not yet been paid. Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used. Review of the financial ledger line by line for variances.	No
Credit loss and impairment allowances	Review of all assets undertaken annually to assess whether there is any indication that an asset may be impaired	See left	Discussion with the Council's asset team	Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall	No



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