

Informing the audit risk assessment for London Borough of Lewisham and Pension Fund 2021/22

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between London Borough of Lewisham and Pension Fund's external auditors and London Borough of Lewisham and Pension Fund'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 London Borough of Lewisham and Pension Fund'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>These will be disclosed in full within the 2021/22 Statement of Accounts. Some of the key issues will be the financial effects of the Covid-19 pandemic; Covid-19 procurement rule changes – more extensions; withdrawal of NHS FT claim for charitable status on business rates; new ISA/IFRS requirements and enhanced VFM work, asset valuations and related capital calculations.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by London Borough of Lewisham and Pension Fund? 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 current accounting policies of the Council are considered to be appropriate.</p> <p>No – there are no such events or transactions. The length of depreciation on assets, which is currently at 40 years will likely be considered as part of a development programme, as to whether for HRA and/or GF this should move to 50 years.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>There are Level 3 investments in the Pension Fund.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>There are existing loans to Lewisham Homes (ALMO) to acquire residential buildings – circa £37 million. In addition, Covid-19 work has required the business rates system to be used to target reliefs and grants to businesses, rather than primarily collecting tax. Covid grants have also supported care provider contracts Funds have also through care provider contracts. The Council terminated the Fusion leisure contract early and paid into the London mortuary arrangements.</p>

General Enquiries of Management

Question	Management response
<p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?</p>	<p>Not at this time. This information will be collected from service areas as part of the year-end proforma.</p> <p>As part of the group accounts, CRPL are at the limits of borrowing secured against value of assets. This is due to the decrease in valuations due to Covid-19.</p>
<p>6. Are you aware of any guarantee contracts? If so, please provide further details</p>	<p>Not at this time. This information will be collected from service areas as part of the year-end proforma.</p>
<p>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</p>	<p>Not at this time. This information will be collected from service areas as part of the year-end proforma.</p>
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by London Borough of Lewisham and Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>The Legal Team uses support from external Counsel and external legal firms when needed.</p> <p>The Pension Fund has appointed Eversheds-Sunderland to provide specific tax and legal due diligence advice prior to the investment in a low carbon equity fund.</p>

General Enquiries of Management

Question	Management response
9. Have any of the London Borough of Lewisham and Pension Fund'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	No frauds reported, but following judgements on McCloud and Goodwin cases additional retrospective work is required to be completed to address any gender and age discrimination in payment of pensions.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	We have consulted PWC with regard to housing and regeneration schemes, and also for VAT advice. For Treasury we use Link Asset Services for advice (they were used for regular benchmarking and interest rate and general economic forecasting in support of TMS and MTFS) and for Pensions we use Hymans Robertson as consultant and advisors (used for all investment strategy and risks, mandate advice and actuarial services).
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	Expected credit losses are considered at least annually, taking into account past information, current conditions and forecast information to reflect credit risk. This is in relation to financial assets including lease receivables, loan commitments and financial guarantee contracts, where relevant. No losses have currently been identified.

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 London Borough of Lewisham and Pension Fund'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 London Borough of Lewisham and Pension Fund's management.

Fraud risk assessment

Question	Management response
<p>1. Has London Borough of Lewisham and Pension Fund 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>Yes</p> <p>The Council has good arrangements including a counter fraud team, policies and procedures – overseen by the Audit Panel. The Council also has a whistleblowing policy with cases reported by the monitoring officer to the Standards Committee. These are set out in the Anti-Fraud and Corruption Team (AFACT) updates to the Audit Panel. No frauds have been identified which would be material to the Accounts; a number of housing and benefits cases have arisen and a small number of staffing cases. These are reported to EMT quarterly and annually to the Audit Panel and online as per the requirements of the Transparency Code.</p> <p>Service managers raise risks which may relate to finances which feed into Service Plans, Directorate and Corporate risk registers. Through the monthly financial monitoring process to EMT (quarterly to M&C) risks from business activity and change are discussed.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Treasury management activity and the Financial Transactions Team activity which includes accounts payable and corporate credit cards. A further class of activity would include Pension Fund valuations and transactions, hence the appointment of a custodian.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within London Borough of Lewisham and Pension Fund as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No frauds have been identified which would be material to the Accounts; a number of housing and benefits cases have arisen and a small number of staffing cases.</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>All fraud is reported in the annual report to Audit Panel – this is scheduled for June 2022. In addition, the Head of Assurance provides a regular update to each meeting of the Audit Panel and presents the Counter Fraud reports noted above.</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 London Borough of Lewisham and Pension Fund where fraud is more likely to occur?</p>	<p>No</p> <p>No</p> <p>As already stated, there is theoretically a greater risk of fraud within the Treasury Management and the Financial Transactions teams, because of their payment activities. Appropriate controls are in place to mitigate these risks.</p>
<p>6. What processes do London Borough of Lewisham and Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>From a fraud perspective, the internal control process is relied on to identify significant weaknesses (apart from Covid-19 funding activities, where there is a proactive programme to prevent fraud). If an investigation highlights a significant weakness, work is undertaken with the service area to resolve and make audit aware so this could be factored into future audits.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for London Borough of Lewisham and Pension Fund, 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 risk of fraud is managed within the general financial control framework: Financial Regulations, Anti Fraud & Corruption Policy, Whistle-blowers policy etc. All of these policies, procedures and guidelines are reviewed on a regular basis and are submitted for approval to the Audit Panel or - if more appropriate - the Constitutional Working Party, the Standards Committee and/or the Public Accounts Select Committee.</p> <p>In the case of weaknesses resulting in fraud or the risk of fraud, any outstanding actions would also be reported to Audit Panel. In addition, the Anti-Fraud & Corruption Manager has a direct reporting line to the Head of Assurance if immediate action was to be needed.</p> <p>Staff training regarding ethical business practices and regarding the general financial control framework.</p> <p>We are not aware of any such override of controls.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>9. How does London Borough of Lewisham and Pension Fund 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 Director of Law and Corporate Governance delivers an annual training session on ethical matters. Such matters are also covered as part of the fortnightly meetings of the DMT. The Council has an officers' code of conduct and related policy documents that all new staff are required to sign up to. These documents are available on the Council's intranet for officers to view. In addition to this, awareness training sessions are held for officers on the code of conduct, fraud and financial procedures.</p> <p>Staff are encouraged to report their concerns via their line manager or via the whistle-blowing policy.</p> <p>Staff are expected to report any concerns about fraud if they have any suspicions about a colleague's actions in this respect or if they see a potential weakness in a financial control.</p> <p>No significant concerns have been reported.</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>Chief Executive and Executive Management Team, Deputy s151, Director of Financial Services and Head of Payroll and Pensions, Procurement and Accounts Payable teams, Housing services and Benefits team, contract managers.</p> <p>Risks are identified and addressed through the Council's constitution, control framework, and service plans and procedures. The Constitution covers financial and procurement regulations, rules on decision making and delegations to ensure transparency, segregation of duties, and scrutiny. These in practice are then implemented through operational controls – procedures and systems – with records kept of decisions and transactions.</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</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Amongst the anti-fraud policy material, there are specific documents relating to: contract procedure rules; members' code of conduct; and code of corporate governance; plus the register of interests and checks via procurement when letting and managing contracts.</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 Council has good arrangements including a counter fraud team, policies and procedures – overseen by the Audit Panel. The data for these are set out in the Anti-Fraud and Corruption Team (AFACT) updates to the Audit Panel. The Council also has a whistle-blowing policy with cases reported by the monitoring officer to the Standards Committee.</p> <p>The Audit Panel receives regular progress updates and an annual report from the Head of Assurance. These include updates on internal control and risk issues and assess the level of assurance attributable to all areas included in the Audit Plan. The Panel also reviews internal audit reports with a 'limited' or 'no assurance' rating where deemed appropriate and necessary, and regularly reviews the strategic risk register. Where necessary the Audit Panel may also recommend sending audit reports to the relevant board of trustees and/or governors.</p> <p>No frauds have been identified which would be material to the Accounts; a number of housing and benefits cases have arisen and a small number of staffing cases.</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>No</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 London Borough of Lewisham and Pension Fund'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 London Borough of Lewisham and Pension Fund 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>Management relies on delivery of the approach set out in the Council's constitution, and on day-to-day management action including from the Council's legal and financial functions.</p> <p>The Constitution contains requirements to ensure that decision making is legally compliant, in particular that proper advice is taken and corporate implications are considered. (See Pt II ARTICLE 16 PRINCIPLES OF DECISION MAKING 16.1 Principles of decision making paragraph b: 'the decision maker will take professional advice (including financial and legal advice where the decision may have legal and/or financial consequences)'; Pt IV.D Executive Procedure Rules require decisions to be taken 'on the basis of written reports which contain service, legal and financial implications'; and Pt VIII Mayoral Scheme of Delegation Part H General paragraph 5: officers are required to take decisions 'in a manner that decisions are not made in isolation and that the decision maker takes into account the broader corporate implications for the Council'.)</p> <p>As set out above, decisions have to be made in compliance with the Constitutional framework. In addition, the Council's HR and other procedures (including requirements for declarations of interest by staff and members, and delivery of whistle-blowing and complaints policies) provide a framework to reduce the likelihood of non-compliance, and increase the likelihood of non-compliance being revealed.</p> <p>The McCloud and Goodwin judgements may have an impact.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Audit Panel would be advised of any illegal practice through the Internal Audit reporting process or through the scrutiny of the Accounts 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>

Impact of laws and regulations

Question	Management response
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	Currently there are employment claims in relation to term-time working (following decision in Harpur v Brazel case over calculation of holiday pay in relation to term-time employees). At the moment, there are 7 Employment Tribunal claims on hold, with those and other potential claims currently in settlement discussions with Trade Unions. The Unions' expectation is that staff will receive similar settlements to those paid out by LB Greenwich and Brighton Council.
5. What arrangements does London Borough of Lewisham and Pension Fund have in place to identify, evaluate and account for litigation or claims?	As part of the preparation of Accounts process, the Director of Finance has a discussion with the Director of Law and Corporate Governance regarding existing & potential claims. In addition, the CEO, MO and s151 meet quarterly to review any concerns, including live litigation, material control risks etc.
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

Related Parties

Matters in relation to Related Parties

London Borough of Lewisham and Pension Fund 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 London Borough of Lewisham and Pension Fund;
- 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 London Borough of Lewisham and Pension Fund's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and London Borough of Lewisham and Pension Fund whether London Borough of Lewisham and Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>Not at this time, although this will be reviewed as part of 2021/22 account preparation.</p>
<p>2. What controls does London Borough of Lewisham and Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and senior managers are required to make a written declaration of interests each year, including nil returns where applicable. Members' declarations are published on the Council's website, and Members are also required to declare verbally any relevant interests at the beginning of each committee meeting. Material instances from the Council's viewpoint (that is, over £100k) are disclosed in the 'related party transactions' note to the accounts. Material instances from the related party's viewpoint are also considered for disclosure.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>These are as set out in the Constitution (including; decision-making principles, financial and procurement regulations, and schemes of delegation) supported by related operational procedure and system controls to ensure appropriate decision-making, segregation of duties and scrutiny (e.g. financial procedures, procurement handbook, Oracle controls and hierarchy, etc.).</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Any such cases have to go through the Monitoring Officer as Head of Legal Services to settle as per the Constitution. The MO will only do so in consultation with the s151 to assess the financial implications.</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 London Borough of Lewisham and Pension Fund will no longer continue?</p>	<p>Managements regularly monitors budget forecasts and variances for revenue & capital, cash flow position, borrowing affordability, reserves balances and collection of business rates, council tax and housing rents. These will provide early indicators of circumstances in which statutory services will no longer be able to continue.</p>
<p>2. Are management aware of any factors which may mean for London Borough of Lewisham and Pension Fund 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>No. Although there are risks, including the unknown settlement for 2023/24 and income collection rates.</p>
<p>3. With regard to the statutory services currently provided by London Borough of Lewisham and Pension Fund, does London Borough of Lewisham and Pension Fund 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 London Borough of Lewisham and Pension Fund to cease to exist?</p>	<p>Statutory services will continue to be provided by LBL & Pension Fund for the foreseeable future. There are no plans for LBL & Pension Fund to cease.</p>
<p>4. Are management satisfied that the financial reporting framework permits London Borough of Lewisham and Pension Fund 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</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
<p>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>	<p>All such classes of transactions are disclosed in the accounts under the section of the accounts headed 'Statement of accounting policies' and the note to the accounts headed 'Assumptions made about the future and other major sources of estimation uncertainty'.</p> <p>This includes land, buildings & council dwelling valuations, depreciation, valuation of defined benefit net pension fund liabilities, level 2 & 3 pension fund investments, significant accruals, credit loss & impairment allowances, fair value of loans, provisions & PFI liabilities</p>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>Management reviews the accounting estimates used in the previous year's accounts and considers any significant events or changes in accounting standards during the year which may have altered the classes of transactions or the basis on which they should be estimated. These are discussed in the course of the management meetings that take place during the closing of accounts process.</p>
<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>	<p>Management reviews the methods, assumptions and source data used in the previous year's accounts and considers any significant events or changes in accounting standards during the year which may have altered these. These are discussed in the course of the management meetings that take place during the closing of accounts process.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Management reviews these by comparing the current year's results in these areas with the previous year's estimates. If a significant variance arises, this is investigated further to determine whether a change in methodology is appropriate and/or whether an explanatory note is required in the accounts.</p>
<p>5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?</p>	<p>No changes have been made, but this will be subject to review during the closing of accounts process.</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>Certain activities are generally recognised as requiring specialised skills or knowledge related to accounting estimates, especially in the areas of loans & investments, pension fund valuation, and non-current asset valuations. These areas are of very high value and therefore highly significant for the accuracy of the accounts. Management therefore ensures that specialists are used in these areas on an ongoing basis, and consideration is also given to any events or changes in accounting standards during the year which may create a need for additional use of specialist advice.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Quality control measures include reviewing the impacts and reasonableness of accounting estimates at management meetings during the closing of accounts process. Further analysis of the basis of estimates may be called for by management as required. In addition, where external expertise is used, those experts will have had to evidence the appropriate specialist skills and knowledge during the procurement process.</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>As stated above, a review of the impacts and reasonableness of accounting estimates is carried out at management meetings during the closing of accounts process. In addition, periodic liaison meetings are held with external experts at which accounting estimates are reviewed along with other business and contractual issues.</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>Audit Panel is given the opportunity to scrutinise and request information about the process related to accounting estimates, as part of its review of the draft accounts.</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?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Audit Panel is given the opportunity to scrutinise the draft accounts and seek such assurance as appropriate. The draft accounts disclose the basis of accounting estimates used and provide confirmation that the relevant accounting standards have been adhered to regarding those estimates.

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, being the amount that would be paid for the asset in its existing use (existing use value – EUV)	By reference to Code of Practice and any other relevant standards	Yes	A limited degree of uncertainty is accepted, given the sensitivity to market conditions. This is reviewed during the audit process, and valuations may be adjusted accordingly. A note may be added to the accounts where the level of uncertainty is considered significant. Depreciated replacement cost (DRC) and fair value (FV) are alternative methods used in relevant circumstances.	No
Council dwelling valuations	Current value, using the basis of existing use value for social housing (EUV-SH)	By reference to Code of Practice and any other relevant standards	Yes	A limited degree of uncertainty is accepted, given the sensitivity to market conditions. This is reviewed during the audit process, and valuations may be adjusted accordingly. A note may be added to the accounts where the level of uncertainty is considered significant.	No
Depreciation	Straight-line method based on the asset's useful life	By reference to Code of Practice and any other relevant standards	No	The length of useful lives is reviewed periodically. Depreciation is not charged for assets with an indeterminable finite useful life.	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	Actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.	Based on IAS19 assumptions and calculations for the year and the latest triennial valuations	Yes	Some degree of uncertainty is expected – subject to the expertise of actuaries. If there is material uncertainty, this is noted in the accounts.	No
Level 2 Pension Fund investments	Fair value, the basis of measurement being market value based on bid prices. More detail is shown in the pension fund accounts.	Used in cases where quoted market prices are not available	Yes	Some degree of uncertainty is expected – subject to the expertise of fund managers. If there is material uncertainty because of volatility of markets, this is noted in the accounts.	No
Level 3 Pension Fund investments	Fair value, the basis of measurement being market value based on bid prices. More detail is shown in the pension fund accounts.	Used in cases where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data	Yes	Some degree of uncertainty is expected – subject to the expertise of fund managers. If there is material uncertainty because of volatility of markets, this is noted in the accounts.	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?
Significant Accruals	The methods are various, but in general by using all relevant information that is available at that point in time, especially by reference to similar accruals in previous years	Management reviews the estimates used in previous years and considers whether there have been any changes in circumstances that would give rise to additional accruals or revised methodology.	No	Significant expenditure accruals can normally be determined with a reasonable degree of certainty. However, management may consider alternative options for recognising the liability if the situation is uncertain, for example by creating a provision.	No
Credit loss and impairment allowances	Expected credit losses are recognised on all financial assets held at amortised cost either on a 12-month or lifetime basis, where material. Impairment allowances are determined according to the particular factors for each type of debtor.	By reference to the CIPFA Treasury Management Code of Practice and the Council's Treasury Management Strategy. For impairment allowances, via regular management review.	Yes	These methods are considered to be appropriate and prudent, and any changes to the influencing factors, such as market volatility or economic downturn, are appraised by management as and when they occur.	Impairment allowance methodologies currently subject to review

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value of loans	Financial liabilities at amortised cost – fair value estimated by calculating present value of cash flows over remaining term. Assumptions include PWLB borrowing rates or New Loan/Certainty discount rate or discussions with market participants.	Have been assessed with reference to Level 2 inputs, which give a reasonable estimate for the fair value	Yes	Specialist advice obtained from LINK. Market volatility can increase level of uncertainty..	No
Provisions	Various methods, all using relevant information available at that time, with reference to future cashflows.	Management review of estimates used in previous years, consider any change in circumstances that would give rise to amendments and payments already made.	No	Dependent on type of expenditure being provided for, but all relevant information is considered.	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	A separate model is used for each PFI contract to calculate the accounting entries required at year-end.	The model calculations are compared with contractor charges.	The model was created by PwC UK	The calculations include RPI and may include adjustments for deductions based on availability and/or performance or benchmarking.	None



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