

# Informing the audit risk assessment for Shropshire Council 2020/21

20<sup>th</sup> July 2021



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 Shropshire Council's external auditors and Shropshire 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, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from Shropshire 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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The ongoing global COVID-19 pandemic that has hit the UK since March 2020 is anticipated to have an impact on some of the figures quoted within the financial statements. This is particularly the case with asset valuations. Individual markets and sectors have reacted differently to the outbreak and levels of government support have also differed across different sections of the economy. Whilst valuations can take place a greater level of judgement will need to have been applied. The COVID-19 pandemic has also impacted on equity markets around the world which will have impacted on pension asset values.
2. Have you considered the appropriateness of the accounting policies adopted by Shropshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are reviewed annually and there are no proposed changes.
3. Is there any use of financial instruments, including derivatives?	The Council holds financial assets and liabilities in the general running of the Council but does not use derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	The 'onshoring' of the three Shrewsbury Shopping Centre assets, previously held under a JPUT arrangement, took place during 2020/21.

# 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?	No, all impairments that we are aware of will be reflected in the Draft Statement of Accounts.
6. Are you aware of any guarantee contracts?	No new guarantee contracts have been provided in 2020/21.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Contingent liabilities that the Council is aware of will be detailed within the Draft Statement of Accounts. No further contingencies or un-asserted claims have been identified.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Shropshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The Council in the main utilises the EMLawshare framework to source external legal support ( unless specific circumstances dictate otherwise ). The firms on that framework that have been used by the Council are as set out below.</p> <p>Bevan Brittan - various</p> <p>Browne Jacobsen – various</p> <p>Sharpe Pritchard – various</p> <p>Anthony Collins – various</p> <p>In addition the Council has instructed Andrew Uprichard ( sole practitioner) and Leonie Cowan and Associates on Leisure matters and contract issues. The Council has also instructed Gowlings solicitors to assist with the development of loan agreements and general waste management contract advice and assistance given their knowledge and expertise as a result of advising on the original contracts for those specific service areas. Instructions have also been sent to Trowers to assist with land transactions and associated matters with the CDL given their knowledge of the relationship with the Council and CDL.</p> <p>In order to release capacity to support the planning services requirements, some new s106 matters have been sent to Setfords Solicitors to assist given that the lawyer who is assisting previously worked for the Council and is aware of the Council’s requirements.</p>

## General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None identified.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council has sought out general advice for a variety of service areas over the course of the year which will include general advice specifically around capital programme schemes. Other areas where specific advice has been sought relates to Highways Management, review of Leisure Services, the implementation of Cornovii Developments Limited and the Shopping Centre developments.

# 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 Shropshire 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 Shropshire Council's management.



# Fraud risk assessment

Question	Management response		
<p>1. Have Shropshire 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>Fraud risks are identified by Internal audit in their audit plan, and fundamental systems which feed the statement of accounts are reviewed on a risk basis to ensure that controls in place are satisfactory. The statement of accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.</p>		
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Counter fraud risk assessment reported to Audit Committee December 2020 listed the following areas as high and medium</p> <table border="0"> <tr> <td data-bbox="653 467 1062 631"> <p><u>High</u></p> <ul style="list-style-type: none"> <li>• Housing benefits</li> <li>• Cybercrime</li> <li>• Grants (mainly due to COVID business grants)</li> </ul> </td> <td data-bbox="1155 478 1758 969"> <p><u>Medium</u></p> <ul style="list-style-type: none"> <li>• Payroll, fraudulent travel, expense, overtime and timesheets</li> <li>• Pension continues after death</li> <li>• Employee commits benefit fraud</li> <li>• Inappropriate and incorrect contract awards</li> <li>• False invoicing</li> <li>• Debtors; claiming false exemptions, failing to raise a debt, suppressing recovery action</li> <li>• Theft of cash</li> <li>• Council tax discounts and NDR reliefs</li> <li>• Parking abuse including blue badge use/disabled parking</li> <li>• Direct payments / personal budgets</li> <li>• Property and taxi licenses</li> <li>• Schools diversion of resources</li> </ul> </td> </tr> </table>	<p><u>High</u></p> <ul style="list-style-type: none"> <li>• Housing benefits</li> <li>• Cybercrime</li> <li>• Grants (mainly due to COVID business grants)</li> </ul>	<p><u>Medium</u></p> <ul style="list-style-type: none"> <li>• Payroll, fraudulent travel, expense, overtime and timesheets</li> <li>• Pension continues after death</li> <li>• Employee commits benefit fraud</li> <li>• Inappropriate and incorrect contract awards</li> <li>• False invoicing</li> <li>• Debtors; claiming false exemptions, failing to raise a debt, suppressing recovery action</li> <li>• Theft of cash</li> <li>• Council tax discounts and NDR reliefs</li> <li>• Parking abuse including blue badge use/disabled parking</li> <li>• Direct payments / personal budgets</li> <li>• Property and taxi licenses</li> <li>• Schools diversion of resources</li> </ul>
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## 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 Shropshire Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes, but not of a material nature and levels are very low, all are investigated and outcomes reported to Audit Committee regularly.</p> <p>Directors receive a quarterly briefing which also outlines the internal controls required for improvement as a learning from any such allegations once investigated.</p> <p>System managers receive a report directly and sign up to implementing internal control improvements within an agreed timeframe.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Shropshire Council where fraud is more likely to occur?</p>	<p>See 2 above.</p>
<p>5. What processes do Shropshire Council have in place to identify and respond to risks of fraud?</p>	<ul style="list-style-type: none"> <li>• Risk assessment</li> <li>• Vigilant staff with regular training accessible on an electronic system</li> <li>• Reminders to staff</li> <li>• Regular updates to managers and members regarding learning from investigations</li> <li>• Networking with other key counter fraud bodies and organisations</li> <li>• Counter fraud work in internal audit and other parts of the organisation</li> <li>• Counter fraud, anti-bribery and corruption strategy and practices</li> <li>• Full details available in annual Audit Committee report on Counter fraud and anti-corruption strategy, latest December 2020</li> </ul>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Shropshire 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)?</p>	<p>Internal Audit sets a risk assessed programme annually identifying the key areas for review and the need for assurance. Covid saw the Audit plans regularly revisited and resources redeployed to help design and deliver processes and activity in response to Covid which provided a level of assurance as to the Council's management of the situation. High risk areas not subject to audit were identified to enable senior management and members to gather and seek direct assurance as necessary.</p> <p>Audit Committee undertakes a regular self-assessment, challenged by officers and External Audit, and undertakes regular training sessions based on the identification of areas for improvement and key risks and fundamental knowledge-based needs; assurances on the response to Covid were a feature of these. Over the year service managers have been required to attend Audit Committee to provide assurance not otherwise secured on their control and risk management environment.</p> <p>Based on the Internal Audit work, support to the Council in responding to the COVID pandemic and management responses received; the Head of Audit reports limited assurance for the 2020/21 year on the Council's framework for governance, risk management and internal control. She reported that there are a continuing and increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but where discrete parts of the system of internal control remain unaffected.</p> <p>Management of Coronavirus has introduced unprecedented pressures and responses, and this inevitably has impacted on her opinion. Managers' priorities have been diverted to business continuity pressures and this has removed capacity to plan and deliver improvements to known internal control processes, leading to maintained and increased risks in some areas that may impact on delivery of the Council's objectives. The year has continued to be challenging with the embedding of key fundamental line of business systems (financial and human resources), changes of key managerial posts, alongside a challenge to deliver savings, increase income and respond to changing Coronavirus pressures, at times on a daily and weekly basis.</p>

# Fraud risk assessment

Question	Management response
	<p>Continued from previous slide</p> <p>Other controls: All systems have controls designed to reduce waste and the potential for fraud</p> <p>Review of the risks of serious and organised crime and reinforcement of the appropriate control environment – reporting to Commissioning and Assurance Board and Executive Directors</p> <p>An Anti-Fraud and Corruption Strategy supported by a Counter Fraud, Bribery and Anti-Corruption Policy which includes a Fraud Response Plan and a Speaking Up About Wrongdoing Policy “Whistleblowing Policy”. The strategy is supported by a Whistleblowing hotline for use by both the members of staff and the public to report irregularity and fraud. The Audit Committee receive an annual report of whistleblowing activity.</p> <p>Quarterly fraud reports summaries anti-fraud activity in the year for learning shared across the Executive Directors for dissemination</p> <p>No evidence of areas for potential override. Moving to virtual working systems have been adapted to improve controls – e.g. adobe sign used for documents/ contracts.</p>
7. Are there any areas where there is potential for misreporting?	Not aware of any.

## Fraud risk assessment

Question	Management response
<p>8. How do Shropshire 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?</p>	<p>The Council shares the whistleblowing policy with the public and all contractors. The terms and conditions within Council contracts also include ethical considerations for contractors and suppliers. The vision and values for the Council identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.</p> <p>Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy. No significant issues have been reported.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Posts are risk assessed by service areas with the support of HR and where identified as politically restricted, or requiring DBA checks comply with approved processes.</p> <p>Systems and processes are designed with separation of duties; access controls; recruitment checks, training and induction plans, etc. to ensure that risks are minimised and managed regardless of the post holder.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>Potential conflicts of interest are declared at public and private meetings. Officers in specialist roles also declare any conflicts to ensure their work programmes can be planned around these. Employee and Member Codes of Conduct specify clear processes for this.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>Potential fraud risks are assessed across the Council and activities in place to mitigate these. These are reported annually to the November/December Audit Committee. In addition, every Committee meeting has an update report on frauds, special investigations and RIPA activity in which the internal controls that led to the activity are considered and reported upon. Managers receive reports and agree to implementing improvements to reduce the opportunity for repeat frauds, etc going forward therefore improving the control environment.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Any complaints of this nature are dealt with under the approved policy and the outcome is reported to the Monitoring Officer and Audit Committee.</p>
<p>13. Have any reports been made under the Bribery Act?</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 Shropshire 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 entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Shropshire Council have in place to prevent and detect non-compliance with laws and regulations? 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>Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. The Council has a robust corporate governance and risk management process in place.</p> <p>The Council has a Monitoring Officer and Section 151 Officer who provide assurance that all relevant laws and regulations have been complied with. Also all Cabinet reports now have a standard section detailing any legislative issues. Any non compliance is reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All reports on the Council's corporate governance arrangements are presented to Audit Committee to provide assurance that the appropriate arrangements are in place and that they are working well.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2020/21.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.</p>



## Impact of laws and regulations

Question	Management response
5. What arrangements does Shropshire Council have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

# Related Parties

## Matters in relation to Related Parties

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

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Shropshire Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in Shropshire Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Shropshire Council</li> <li>whether Shropshire 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>	<p>Shropshire Council no longer has a relationship with IP&amp;E as it was closed down on xx/xx/xx and is no longer in existence. There are no other changes to the Council's related parties.</p> <p>A review of the Register of interests for Members and staff is pending.</p>
<p>2. What controls does Shropshire Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</li> <li>Annual return from senior managers/officers and members requiring confirmation that they read and understood the declaration requirements and stating details of any known related party interests.</li> </ul> <p>The Council's related parties include Central Government; organisations on which it is represented by members including West Mercia Energy and Shropshire Fire and Rescue Service; and entities which are controlled or significantly influenced by the Authority which includes, Cornovii Developments Limited, SSC No.1 Ltd, Jersey Property Unit Trusts for the Shrewsbury Shopping Centres, the Shropshire County Pension Fund and Shropshire Towns and Rural Housing.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>All significant transactions will be subject to appropriate approval and scrutiny in accordance with the authorisation requirements of the Financial Rules.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>See response to question 3.</p>

# Accounting estimates

## Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit 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?	<ul style="list-style-type: none"> <li>• Property, Plant and Equipment valuations including investment properties</li> <li>• Pensions Liability</li> <li>• Fair Value Measurements</li> <li>• Accruals</li> <li>• Debt Impairment</li> <li>• NDR Appeals Provision</li> </ul>
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Operational risk registers will consider such risks.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The process to calculate estimates is reviewed annually. This review includes establishing the methodology, basis for assumptions and the source data required. The methodology and assumptions are reviewed to ensure they are still accurate and are updated if required. All of this is done in reference to the Code and other prevailing guidance.
4. How do management review the outcomes of previous accounting estimates?	Any changes in accounting estimates between years are investigated to determine the underlying reasons and then taken into consideration for future estimates.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	The estimation processes are reviewed annually and updated to take account of current circumstances e.g. the impact of covid-19. GF valuations have been commissioned externally this year.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Where accounting estimates are required for classes of assets which relate to material assumptions specialist knowledge is obtained. For example in the case of using qualified valuers to carry out PPE valuations.</p>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Where we use external expertise we consider the appropriateness of their qualifications and extent of their expertise. All data provided is reviewed and checked for consistency and accuracy. In relation to PPE valuations a significant exercise is undertaken to check for anomalies and outliers that might indicate an issue with the data. Terms of Engagement issued by the Valuer in commissioning the valuations. Review of externally provided valuations by Estates based on their professional knowledge and of the assets and from Finance on an analytical review basis of movements from last valuations and across groups of assets. Narrative provided by Valuers on reasons for significant valuation swings.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Property numbers and classifications are agreed by Strategic Management Accounting and ST&amp;RH assets staff prior to providing data to DVS for valuation.</p> <p>DVS valuations and reports are subjected to review by the Lead Valuer and subject to internal sign off before the report is released.</p> <p>Once received the reports are subject to review by Strategic Management Accounting, both in terms of reconciling the asset numbers and total valuation back to the total of the property data and analytical review of any movements. If any are significant or out of sync with other movements, these are queried with the Valuers to understand the reasons for the movements.</p> <p>Local property indices are also viewed (once available) to ensure movements are broadly in line with these, excepting there will be variations, both geographically and specific to the type of properties. Where there are any differences in movements, the Valuers are asked for further commentary as to the reasons for the differences.</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>The Finance Team carries out detailed work to derive or review externally provided estimates. Significant estimates are discussed with the S.151 officer during the drafting. The Audit Committee is briefed on the process and they oversee the presentation and publication of the financial statements.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance.

## 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?
General Fund Assets	<p>Valuations are undertaken by qualified valuers in accordance with the requirements of the CIPFA Code of Practice of Practice on local Authority, IFRS standards and RICS Global Standards. Assets are valued using the directed method for the classifications of asset.</p> <p>A full valuation is undertaken at least every 5 years, but usually within 3 years and a desktop valuation exercise annually to update the valuations to the balance sheet date in the intervening years. Assets within the same category (categorised based on use) are revalued simultaneously to avoid selective revaluation of assets.</p> <p>Estates and Finance evaluate if there have been any specific changes e.g. change of use, Council Policy or external factor(s), in year that may result in the requirement to review and update the existing full asset valuation(s) for an individual asset or category of assets (where not subject to full valuation in year). The capital programme is also reviewed for additions or significant revaluations that would result in the requirement for new valuations.</p>	<p>Asset list and classifications agreed between Estates and Finance based on CIPFA Code of Practice on Local Authority Accounting requirements and latest property information.</p> <p>Montagu Evans operates a partner review system for all valuations and the report will be jointly signed by the author and reviewer.</p> <p>Once issued Montagu Evans report is reviewed by Estates Team Leader and Senior Estates Surveyor, whom are RICS Registered Valuer. This review is based on their profession knowledge and knowledge of the assets and local market.</p> <p>As part of updating the FAR for the new valuations contained in the Valuation Report, the Strategic Management Accountant will undertake checks to ensure the data is complete and also analytical review checks to compare to previous valuations and movements in valuations for assets in the same classification to ensure they are consistent. Any significant variances from previous valuations, expectations or between assets, are queried and discussed with the Valuers.</p> <p>Where there were movements in valuations in 2020/21 that were identified as attributable to changes in the valuation approach under the new Valuers, additional valuations were commissioned of other assets valued on a similar basis to ensure all valuations were on a consistent basis.</p>	<p>Montagu Evans have been commissioned by the Estates Team to undertake the full valuations required in 2020/21 and an indexation review/valuation of the remaining Council's assets to 31/03/2021.</p> <p>This service has been procured under a call off order issued in accordance with the provisions of the Framework Agreement for the provision of Estates Professional Services RM3816 dated 25/07/2017.</p> <p>The personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards and are RICS Registered Valuers.</p>	<p>Due to requirement for valuations to be completed by early April with valuation date of 31<sup>st</sup> March, Valuations are based on the latest valuation information available at that point in time.</p>	<p>Yes, partial change in the method. All asset valuation is now done by external valuers.</p>



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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?
Council Dwelling valuations	<p>The beacon valuation approach is used for the valuation of the council dwellings, this approach is instructed in the DCLG guidance.</p> <p>Full valuation is done every 5 years along with a desktop valuation exercise annually.</p>	<p>Property numbers and classifications are agreed by Strategic Management Accounting and ST&amp;RH assets staff prior to providing data to DVS for valuation.</p> <p>DVS valuations and report are subjected to review by the Leader Valuer and subject to internal sign off before the report is released.</p> <p>Once received the reports is subject to review by Strategic Management Accounting, both in terms of reconciling the asset numbers and total valuation back to total the property data and analytical review of any movements, which if any are significant or out of synch with other movements, these are queries with the valuers for the reason for the movements.</p> <p>Local property indices are also viewed (once available) to ensure movements are broadly in line with these, excepting there will be variations, both geographically and specific to the type of properties. Where there are any differences in movements, the Valuers are asked for further commentary as to the reasons for the differences.</p>	<p>The DVS (part of Valuation Office Agency) who are the Property Specialists for the Public Sector are commissioned by ST&amp;RH to undertake the desktop review exercise.</p> <p>The valuation is carried out by a RICS Registered Valuer.</p>	<p>Due to requirement for valuations to be completed by early April with valuation date of 31<sup>st</sup> March, Valuations are based on the latest valuation information available at that point in time.</p> <p>Valuations are based on desktop valuations to 31<sup>st</sup> March carried out by Property Specialists for the Public Sector. These are done by assessment of the Beacon properties based on recent and relevant market based evidence of comparative properties to ensure a sound estimation. In the statement of accounts we assess the financial implications of a 1% movement in the valuations.</p>	No

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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	<p>Valuations are undertaken by qualified valuers in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting, IFRS standards and RICS Global Standards. Assets are valued using the directed method for the classifications of asset.</p> <p>As Investment Properties are valued on a Market Value (MV) basis, these are subject to annual review and assessment to ensure the valuation reflects current value at the balance sheet date. They are not subject to indexations as was not felt an appropriate methods for this group of assets.</p> <p>All asset valuation work will be undertaken by External Valuers in 2020/21, this is a partial change to 2019/20, when External Valuers undertook the majority of the valuation work.</p>	<p>Asset list and classifications agreed between Estates and Finance based on CIPFA Code of Practice on Local Authority Accounting requirements and latest property information.</p> <p>Montagu Evans operates a partner review system for all valuations and the report will be jointly signed by the author and reviewer.</p> <p>Once issued Montagu Evans report is reviewed by Estates Team Leader and Senior Estates Surveyor, whom are RICS Registered Valuer. This review is based on their profession knowledge and knowledge of the assets and local market.</p> <p>As part of updating the FAR for the new valuations contained in the Valuation Report, the Strategic Management Accountant will undertake checks to ensure the data is complete and also analytical review checks to compare to previous valuations and movements in valuations for assets in the same classification to ensure they are consistent. Any significant variances from previous valuations, expectations or between assets, are queried and discussed with the Valuers.</p> <p>Where there were movements in valuations in 2020/21 that were identified as attributable to changes in the valuation approach under the new Valuers, additional valuations were commissioned of other assets valued on a similar basis to ensure all valuations were on a consistent basis.</p>	<p>Montagu Evans have been commissioned by the Estates Team to undertake the full valuations required in 2020/21 and an indexation review/valuation of the remaining Council's assets to 31/03/2021.</p> <p>This service has been procured under a call off order issued in accordance with the provisions of the Framework Agreement for the provision of Estates Professional Services RM3816 dated 25/07/2017.</p> <p>The personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards and are RICS Registered Valuers.</p>	<p>Due to requirement for valuations to be completed by early April with valuation date of 31<sup>st</sup> March, Valuations are based on the latest valuation information available at that point in time.</p>	<p>Yes, all asset valuation work is now completed by external valuers.</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?
PPE useful lives	<p>Valuations are undertaken by qualified valuers in accordance with the requirements of the CIPFA Code of Practice of Practice on local Authority, IFRS standards and RICS Global Standards. Assets are valued using the directed method for the classifications of asset.</p> <p>A full valuation is undertaken at least every 5 years, but usually within 3 years and a desktop valuation exercise annually to update the valuations to the balance sheet date in the intervening years. Assets within the same category (categorised based on use) are revalued simultaneously to avoid selective revaluation of assets.</p> <p>Estates and Finance evaluate if there have been any specific changes e.g. change of use, Council Policy or external factor(s), in year that may result in the requirement to review and update the existing full asset valuation(s) for an individual asset or category of assets (where not subject to full valuation in year). The capital programme is also reviewed for additions or significant revaluations that would result in the requirement for new valuations.</p> <p>All asset valuation work will be undertaken by External Valuers in 2020/21, this is a partial change to 2019/20, when External Valuers undertook the majority of the valuation work.</p> <p>For plant &amp; equipment, an assessment is made of asset life at the point of capitalisation in accordance with the Council's accounting policies.</p>	<p>Asset list and classifications agreed between Estates and Finance based on CIPFA Code of Practice on Local Authority Accounting requirements and latest property information.</p> <p>Montagu Evans operates a partner review system for all valuations and the report will be jointly signed by the author and reviewer.</p> <p>Once issued Montagu Evans report is reviewed by Estates Team Leader and Senior Estates Surveyor, who are RICS Registered Valuer. This review is based on their profession knowledge and knowledge of the assets and local market.</p> <p>As part of updating the FAR for the new valuations contained in the Valuation Report, the Strategic Management Accountant will undertake checks to ensure the data is complete and also analytical review checks to compare to previous valuations and movements in valuations for assets in the same classification to ensure they are consistent. Any significant variances from previous valuations, expectations or between assets, are queried and discussed with the Valuers.</p> <p>Where there were movements in valuations in 2020/21 that were identified as attributable to changes in the valuation approach under the new Valuers, additional valuations were commissioned of other assets valued on a similar basis to ensure all valuations were on a consistent basis.</p>	<p>Montagu Evans have been commissioned by the Estates Team to undertake the full valuations required in 2020/21 and an indexation review/valuation of the remaining Council's assets to 31/03/2021.</p> <p>This service has been procured under a call off order issued in accordance with the provisions of the Framework Agreement for the provision of Estates Professional Services RM3816 dated 25/07/2017.</p> <p>The personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards and are RICS Registered Valuers.</p>	<p>Due to requirement for valuations to be completed by early April with valuation date of 31<sup>st</sup> March, Valuations are based on the latest valuation information available at that point in time.</p>	<p>Yes, partial change. All asset valuation is now done by external valuers.</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?
Depreciation	Depreciation methods are set based on the requirements of the CIPFA Code of Practice on Local Authority Accounting.	<p>Asset list and classifications agreed between Estates and Finance based on CIPFA Code of Practice on Local Authority Accounting requirements and latest property information.</p> <p>Montagu Evans operates a partner review system for all valuations and the report will be jointly signed by the author and reviewer.</p> <p>Once issued Montagu Evans report is reviewed by Estates Team Leader and Senior Estates Surveyor, whom are RICS Registered Valuer. This review is based on their profession knowledge and knowledge of the assets and local market.</p> <p>As part of updating the FAR for the new valuations contained in the Valuation Report, the Strategic Management Accountant will undertake checks to ensure the data is complete and also analytical review checks to compare to previous valuations and movements in valuations for assets in the same classification to ensure they are consistent. Any significant variances from previous valuations, expectations or between assets, are queried and discussed with the Valuers.</p> <p>Where there were movements in valuations in 2020/21 that were identified as attributable to changes in the valuation approach under the new Valuers, additional valuations were commissioned of other assets valued on a similar basis to ensure all valuations were on a consistent basis.</p>	<p>Montagu Evans have been commissioned by the Estates Team to undertake the full valuations required in 2020/21 and an indexation review/valuation of the remaining Council's assets to 31/03/2021.</p> <p>This service has been procured under a call off order issued in accordance with the provisions of the Framework Agreement for the provision of Estates Professional Services RM3816 dated 25/07/2017.</p> <p>The personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards and are RICS Registered Valuers.</p>	This is considered by the Valuers as part of arriving at the estimations of remaining asset lives.	No

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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?
Pension Liability	An actuary is engaged to calculate the pension liability based on a set of complex judgements.	<p>Management are provided with the assumptions for review prior to the calculation being performed and challenge if needed.</p> <p>The calculation provided by the actuary is reviewed by the Treasury and Finance Team to confirm accuracy based on the information provided to them and the movements in the liability based on the analysis provided.</p>	The actuary is used to calculate the accounting estimate.	<p>The covid-19 pandemic had an impact on equity markets and this was reflected in the accounting figures for the 2019/20 accounts. Any recovery over the year will be reflected in the accounting figures as at 31<sup>st</sup> March 2021. A material uncertainty was reported in relation to property fund investments as at 31<sup>st</sup> March 2020 as a result of covid-19. This has not been reported as at 31<sup>st</sup> March 2021.</p> <p>The actuary provides sensitivity analysis on a range of assumptions including the rate of inflation and the rate of increase in salaries. Details of these are disclosed in the financial statements.</p>	No
Significant Accruals	Accruals for income and expenditure are often based on known values. Where estimates are used they are based on the latest information available and service specific knowledge.	<p>Accruals are reviewed by management to monitor the methods and assumptions used to calculate the estimates.</p> <p>Management review the budget monitoring position throughout the year and the outturn position to identify accruals required and the basis for the accruals.</p>	No	The accrual working papers reviewed by management require confirmation if the accrual is based on an estimate and supporting documents provided to evidence the methodology used.	No

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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?
Bad debt provision	The method used takes into account the age profile of the debt and likelihood of collection. This is reviewed by management.	The bad debt position is calculated twice a year and reviewed by Senior Management to understand any impact on the calculation of changes in assumptions, methods and source data.	No	The calculation is reviewed using different assumptions to assess the uncertainty and select the appropriate methods	No
Fair Value of Loans	A Treasury Advisor is engaged to calculate the Fair Value of loans and selects the methodology and assumptions to be used in line with the code of practice.	They supply the source data and review the responses to ensure it reflects the information provided and the basis of the estimate.	A Treasury Advisor is engaged to calculate the Fair Value of loans. They were procured through a tender process.	The Treasury Advisor determines the accounting estimate and provides details behind the basis of methodology and assumptions and market analysis	No
NDR Appeals	Data is provided from the VOA on outstanding and settled appeals. This is used to calculate the estimated reduction in RV for appeals yet to be settled.	The assumptions and method are reviewed by Senior Management	The source data is provided by the VOA.	The estimate is reviewed against previous year's calculations and assumptions made as well as taking into account current circumstances	No



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