

## **AUDIT AND GOVERNANCE COMMITTEE**

Date: Wednesday 25 November 2020  
Time: 5.30 pm  
Venue: Virtual

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Sharon Sissons, Democratic Services Officer on 01392 265115.

### *Membership -*

Councillors Wardle (Chair), Atkinson (Deputy Chair), Foggin, Hannaford, Henson, D, Mrs Henson, Lamb, Mitchell, M, Oliver and Warwick

### Agenda

#### **Part I: Items suggested for discussion with the press and public present**

##### **5 Audit Findings Report (ISA 260)**

To consider the report of the External Auditor, Grant Thornton.  
(Supporting ISA 240 Document)

(Pages 3 -  
32)

#### **Date of Next Meeting**

The next **Audit and Governance Committee** will be held on Wednesday 10 March 2021 at 5.30 pm

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# Informing the audit risk assessment for Exeter City Council 2019/20

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors, Management and the 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 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,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the 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 2019/20?   | Covid-19   |
| 2. Have you considered the appropriateness of the accounting policies adopted by the Council?<br>Have there been any events or transactions that may cause you to change or adopt new accounting policies? | Yes accounting policies reviewed and remain appropriate for 2019/20  |
| 3. Is there any use of financial instruments, including derivatives?   | CCLA Property Fund and money market funds. Classified as FVTPL, but statutory reversal in place until 31 March 2023 for unrealised fair value movements.   |
| 4. Is Are you aware of any significant transaction outside the normal course of business?  | NNDR 1 2020/21 S31 grants paid to authorities in 2019/20.<br>MHCLG made payments on 27 March 2020 of the S31 grant amounts, in order to ease local authority cash-flows. It paid the grant in an upfront lump sum of £2,398,075 (rather than instalments over the course of 2020/21). This was part of the Government's Covid-19 support measures. |



## 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   |
| 6. Are you aware of any guarantee contracts?   | During 2019/20 the Council agreed to provide a guarantee to the University of Exeter for a lease granted to Exeter Science Park Ltd of up to £950,054  |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?  | No   |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years? | <p>Exeter City Council has utilised external solicitors as follows:</p> <p>Ashfords LLP: Construction dispute with Allies and Morrisons Architects in relation to the Royal Albert Memorial Museum</p> <p>Ashfords LLP: Construction dispute with Enelco Limited (aka Exeter Building Company) – Adjudication process.</p> <p>Both matters are now concluded. Therefore they are not working on open litigation or contingencies from prior years.</p> |
| 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?                       | No   |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?  | <p>Various consultants employed in respect of the capital projects, as appoint multi-disciplined teams for QS, design, project management etc.</p> <p>Barnett Waddingham provide actuarial reports for Devon LGPS.</p> <p>The Council subscribes to the Icharod (Local Government technical accounting service) for bulletins on emerging accounting issues.</p>   |

# Fraud

## Issue

### 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 the 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 Risk & Assurance 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 the Council's management.

## Fraud risk assessment

| Question   | Management response  |
|--|--|
| <p>1. Have the 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>Yes - I am not aware of any incidents that may give rise to a material misstatement.</p> <p>Internal Audit, anonymous whistleblowing via website, DWP shared information.</p> <p>Areas of budgetary concern and risk are reported quarterly alongside each budget monitoring report</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>  | <p>Housing Benefits, Right to Buy sales, Grants</p>  |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>                 | <p>As reported by Internal Audit in their annual report, one instance of credit card fraud was identified and the money refunded – total £385.95</p> <p>Reported in quarterly Internal Audit reports to Audit &amp; Governance Committee</p>   |

## Fraud risk assessment

| Question  | Management response  |
|---|--|
| <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 the Council where fraud is more likely to occur?</p>  | <p>See question 2 – DWP take responsibility for HB fraud claims</p>  |
| <p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>  | <p>Internal Audit, anonymous whistleblowing via website, DWP shared information.</p>   |
| <p>6. How would you assess the overall control environment for the Council, including:<br/>the process for reviewing the effectiveness the system of internal control;<br/>internal controls, including segregation of duties;<br/>exist and work effectively?</p> <p>If not 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 have concluded the following</p> <p>From the audit work undertaken during the year and taking into account the other sources of assurance identified above, we consider that the key systems are operating satisfactorily and that there are no fundamental breakdowns of control resulting in material discrepancy. As mentioned above, no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, this statement is only intended to provide an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2020.</p> <p>The Finance team is made up of qualified accountants who work to their relevant code of ethics. They oversee all areas and would identify attempts to alter the financial reporting process.</p> |

## Fraud risk assessment

| Question  | Management response   |
|---|---|
| 7. Are there any areas where there is potential for misreporting?   | I am sure there is the potential for misreporting in all areas of the Council, however checks are in place to protect against this.                                     |
| 8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?<br><br>How do you encourage staff to report their concerns about fraud?<br><br>What concerns are staff expected to report about fraud?<br>Have any significant issues been reported? | The Council has a code of conduct for staff and members and also has a whistle blowing policy available on the intranet.<br><br>None have been reported in 2019/20      |
| 9. From a fraud and corruption perspective, what are considered to be high-risk posts?<br><br>How are the risks relating to these posts identified, assessed and managed?   | Any management post has the basis to be higher risk. These posts are managed through the code of conduct, disciplinary process and management structure of the Council. |
| 10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?<br><br>How do you mitigate the risks associated with fraud related to related party relationships and transactions?  | All such relationships should be disclosed and staff / members excluded from any decisions.   |

## Fraud risk assessment

| Question  | Management response   |
|---|---|
| <p>11. 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>See question 3</p> <p><b>Of the 50 reports received:</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> 15 were in relation to possible fraudulent claims of housing benefit and single occupier discount for council tax purposes. HB cases were referred on to the DWP for investigation, as with effect from 01 April 2015 all HB fraud investigation is now undertaken by them. All single occupier discount cases were referred to the Council Tax service for further investigation.</li> <li><input type="checkbox"/> 8 were allegations of housing tenancy issues</li> <li><input type="checkbox"/> 13 issues were in relation to other Council Services</li> <li><input type="checkbox"/> 6 were issues not dealt with by the Council so were referred to the appropriate external agency</li> <li><input type="checkbox"/> 3 were in respect of Right to Buy applications</li> </ul> <p>None were proven and 1 investigation is ongoing</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>Although a number of concerns were raised throughout the year, none were required to be dealt with under the Whistleblowing Policy.</p>  |
| <p>13. Have any reports been made under the Bribery Act?</p>  | <p>No</p>   |

## Law and regulations

### Issue

#### 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 the 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 the Council have in place to prevent and detect non-compliance with laws and regulations?<br/>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>The Council's Monitoring Officer provides advice on all laws and regulations. The team provides professional support to services to assist with compliance. No system of assurance can provide 100% assurance.</p>  |
| <p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>  | <p>Any significant new laws and regulations are highlighted to Council along with the implications. Audit &amp; Governance receive reports on new laws and consultations on Governance related issues.</p>   |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>  | <p>One HSE breach in Housing, which is being prosecuted. The Council has admitted culpability and is in discussion with the HSE. This is ongoing.</p>  |
| <p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>   | <p>At 31 March, we were awaiting the outcome of the VOA's attempt to seek leave to appeal the successful appeal of the Museum's business rates valuation. The attempt was rejected and the funds, which were refunded to the Council during 2019-20 are now available to the Council to use.</p> |



## Impact of laws and regulations

| Question   | Management response  |
|--|--|
| 5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?            | The Monitoring Officer and section 151 Officer are both part of SMB and work closely together. Insurance is managed within Finance and regularly reports new claims. |
| 6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? | No   |

## Going Concern

### Issue

#### Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

| Question   | Management response  |
|--|--|
| <p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Council? What was the outcome of that assessment?</p>                  | <p>Yes – please see attached – the accounts are being prepared on a Going Concern basis</p>          |
| <p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the budget and the financial information provided to members throughout the year?</p> | <p>Yes, as updated to reflect the Covid-19 restrictions. These have been reported during 2020-21</p> |

## Going concern considerations

| Question  | Management response   |
|---|---|
| 3. Are the implications of statutory or policy changes appropriately reflected in the Council, financial forecasts and report on going concern?   | Yes – all additional pressures are added as identified and built into the MTFP.   |
| 4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control). | None  |
| 5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code?<br>If so, what action is being taken to improve financial performance?                                | Cash flow have remained healthy throughout the Covid-19 pandemic, there are no concerns. The annual Cashflow is monitored daily.<br><br>The Council moved to immediate payments to support business throughout the Covid-19 pandemic response |

## Going concern considerations

| Question   | Management response   |
|--|---|
| 6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?<br>If not, what action is being taken to obtain those skills? | Yes – the Council has a strong Management Team that have been working together for the last three years |
| 7. Does the Council have procedures in place to assess their ability to continue as a going concern?   | Yes   |
| 8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?   | No  |

## Going concern considerations

| Question   | Management response   |
|--|---|
| <p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p> | <p>The going concern assessment is not currently reported to A&amp;G Committee. They rely on the professional judgement of the section 151 Officer.</p> |

# Related Parties

## Issue

### Matters in relation to Related Parties

the Council are required to comply with IAS 24 and 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 the 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 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 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.

## Relating Parties

| Question   | Management response  |
|--|--|
| 1. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships ? | Regular review of group boundary and assessment of relationship with the Council. Member Services also manage declaration of interests, so that Members/Officers omitted from participating in Council discussions/decisions where appropriate |



# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

the Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

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

## Accounting Estimates

| Question   | Management response   |
|--|---|
| 1. 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)? | Critical judgements are disclosed in Note 3 to the accounts   |
| 2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?   | No changes to accounting estimates, as set out in Appendix A  |
| 3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?  | Accounting estimates are reported to Audit and Governance Committee as part of approving the annual Statement of Accounts |

## 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:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates               | Has there been a change in accounting method in year? |
|---|---|--|---|--|---|
| Property, plant & equipment valuations  | Fair value for land/buildings defined as 'existing use' by the Council.   | Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20. | the Council   | Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.            | No  |
| Estimated remaining useful lives of PPE | Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate. | See left box   | Discussion with internal asset team and where applicable the Council as the valuer. | Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption. | No  |

## Appendix A Accounting Estimates (Continued)

| Estimate                             | Method / model used to make the estimate  | Controls used to identify estimates  | Whether Management have used an expert              | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|--------------------------------------|---|--|---|---|---|
| Depreciation and Amortisation        | See above   | See above  | See above   | See above   | No  |
| Impairments                          | Review of all assets undertaken annually in line with the Council.  | See left.  | Discussion with internal asset team as appropriate. | N/A.  | No.   |
| Measurement of Financial Instruments | Financial instruments consist of investments (Collective Investment Fund (CIF)). Measured initially at cost and subsequently at amortised cost using the effective interest method. | Knowledge by the Investment team who manages the CIF portfolio in assessing the potential risk in credit losses. | Fund advisers – the Council                         | The CIF portfolio is assessed on an individual borrower for its expected credit losses using:<br>i) Probability of default<br>ii) Loss of given default | 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:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates   | Has there been a change in accounting method in year? |
|----------------------------|--|---|--|--|---|
| Provisions for liabilities | Provisions are identified through detailed monthly management accounts which flags any potential issues to management. | Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.                       | As necessary on an individual basis    | Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item. | No.   |
| Bad Debt Provision         | Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Council.           | Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. the Council signs off the write off. | N/A                                    | N/A  | 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:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|---|---|--|--|---|
| Accruals   | We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid. | Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year. | N/A.                                   | N/A.   | No.   |
| Non Adjusting events – events after the balance sheet date | Monthly management accounts prepared would flag any adjusting/non-adjusting events.                       | See left.   | N/A.                                   | N/A.   | 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:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|--|---|--|--|---|---|
| Pension Fund (LGPS) Actuarial gains/losses | The actuarial gains and losses figures are calculated by the actuarial expert the Council. These figures are based on making % adjustments to the closing values of assets/liabilities. | the Council responds to queries raised by the administering body, the Council. | the Council are provided with an actuarial report by the Council (LGPS). | The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field. | No.   |



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