

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 27 July 2022
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

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.

Entry to the Civic Centre can be gained through the Customer Services Centre, Paris Street.

Membership -

Councillors Wardle (Chair), Moore, D (Deputy Chair), Allcock, Branston, Ellis-Jones, Leadbetter, Mitchell, M, Packham, Rees, Snow, Sutton and Warwick

Agenda

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

7 Informing the Risk Assessment Report (Report to Follow)

To consider the report of the External Auditors – Grant Thornton.

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Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 28 September 2022 at 5.30 pm

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Informing the audit risk assessment for Exeter City Council 2021/22

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Exeter City Council's external auditors and Exeter City Council's Audit and Governance 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 and Governance Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and Governance 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 and Governance Committee and supports the Audit and Governance 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 Exeter City Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Ongoing impact of Covid-19
2. Have you considered the appropriateness of the accounting policies adopted by Exeter City Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Yes accounting policies reviewed and remain appropriate for 2021/22
3. Is there any use of financial instruments, including derivatives? If so, please explain	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. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Various Covid-19 funding and grant schemes, both receivable by the Council and distributed to support businesses and those suffering financial hardship. Judgements have been made in respect of whether the Council is acting as a principal or agent.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	A guarantee to the University of Exeter remains in place for a lease granted to Exeter Science Park Ltd
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Exeter City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Ashfords LLP – Purchase of the Guildhall Shopping Centre (concluded)</p> <p>Ashfords LLP: Section 106 variation for the Clifton Hill Sports Centre (concluded)</p> <p>Ashfords LLP: Laings Buddle Lane Adjudication: Adjudication brought by Exeter Building Company Limited against Exeter City Council under the Housing Grants, Construction and Regeneration Act 1996 Adjudication process re: Buddle Lane development (Concluded)</p> <p>Davitt Jones Bould Solicitors: Sale of the Clifton Hill Sports Centre (continuing)</p> <p>Dunn and Baker solicitors: Section 104 Agreements for Laings Easiform properties (continuing)</p> <p>James Button & Co Solicitors – Advice on Taxi Fares (Licensing) (concluded)</p> <p>Sheehan Legal have also been instructed on a number of lease related matters (variations, assignment and surrendered)</p>

General Enquiries of Management

Question	Management response
9. Have any of the Exeter City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	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 the Council appoint multi-disciplined teams for QS, design, project management for certain schemes.</p> <p>Barnett Waddingham provide actuarial reports for Devon LGPS</p> <p>The Council subscribes to the Ichabod (local government technical accounting service) for bulletins on emerging accounting issues</p> <p>VAT advice is provided by PSTax</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	<p>Yes, impairment losses are assessed for financial assets exposed to credit risk, including sundry debtors, statutory debtors (e.g. council tax and NDR), rents, investments and loans. A collective assessment approach is taken where a group of receivables have shared risk characteristics. Where loss allowances are calculated for individual financial assets, it is based upon an assessment of the risk of default occurring and estimated losses if default occurs.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance 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 and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Exeter City 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 and Governance 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 and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance 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 Exeter City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Exeter City 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, insofar as conducting the fraud risk assessment, the results of which are recorded in the fraud risk table (copy provided).</p> <p>Please see fraud risk table.</p> <p>Any financial risks arising from the Council's risk management processes are taken into consideration as part of preparing the Council's medium term financial plan and help inform decisions on minimum General Fund and HRA working balances as a contingency. Under Section 25 of the Local Government Act 2003 the Section 151 officer has a duty to report on the robustness of estimates and adequacy of reserves, appropriate for the risks to which it is exposed.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>High risk before mitigating actions are: Main Accounting, Income Management, Procurement, Creditors, Insurance, Private Sector Waste Services, Taxi Licensing, Social Housing, Right to Buy, NDR, Payments and Collection, Council Tax, Housing Benefits, Contract Management, Planning, Grants (incl. DFG, Covid Business) and ICT. The only area remaining high risk after mitigating controls being in place is ICT due to external high risks and constantly changing and emerging risks. (Please see fraud risk table for more details).</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Exeter City Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No</p> <p>Reported in quarterly Internal Audit reports to Audit & Governance Committee</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>Internal Audit report on their work to the Audit and Governance Committee on a Quarterly basis.</p> <p>The Corporate Risk Register is reviewed and updated by the Senior Management Board on a Quarterly basis and this is then presented to the Audit and Governance Committee for review on a quarterly basis.</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 Exeter City Council where fraud is more likely to occur?</p>	<p>The Council has a specific fraud risk table (copy provided), this is reviewed on a regular basis and shared with the Senior Management Board and the Portfolio Holder for Corporate Services.</p> <p>We do not have any specific concerns regarding the risk of fraud.</p> <p>Covid grants are a risk, however, all recommended controls and processing checks have been followed.</p>
<p>6. What processes do Exeter City Council have in place to identify and respond to risks of fraud?</p>	<p>Internal Audit regularly review and update fraud risk assessment, Counter Fraud Strategy regularly reviewed and updated, anonymous whistleblowing via website, self- assessment against Fighting Fraud Locally, DWP shared information, IIA information, NFI data matching</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Exeter City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit review the internal control processes and provide assurance to Management. The risk based audit plan determines the areas covered each year.</p> <p>Management have agreed remedial action for all high and medium risk issues identified within Internal Audit reports during the year.</p> <p>Counter fraud and whistleblowing e-learning, articles in staff newsletters, participation in the NFI, online reporting facilities for members of the public to raise concerns.</p> <p>The wife of the Chief Finance Officer/S151 works within the Finance team as Service Accountant, she does not report directly to the Chief Finance Officer. However, whilst we currently do not have any concerns there is always a greater potential for fraud/override of controls.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Whilst we currently do not have any concerns, there is potential for misreporting within the commercial activities of the Council, including Exeter City Living.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Exeter City Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Codes of Conduct in place, counter Fraud/Whistleblowing training is undertaken as part of induction e-learning, articles in staff newsletter</p> <p>Raising awareness via staff newsletters. Internet information. Whistleblowing policy.</p> <p>Staff are encouraged to report any concerns they may have and all will be appropriately investigated</p> <p>No</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>S151, Accountants, Contract Managers, Procurement, Planning Officers.</p> <p>Their service areas are considered higher risk when establishing the internal audit plan</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>Partnership Protocol in place, Conditions in Partnership/contract agreement, Pre-procurement vetting process (including bribery risks) in place, data matching and NFI, The Council has established the correct legal process when setting up the Exeter City Living related party relationship.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance 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>Internal Audit provide a quarterly progress report to the A&G Committee. Any concerns would be raised here. In addition fraud statistics are included in the Annual Internal Audit report.</p> <p>Quarterly Internal Audit progress report, reviews the work and findings of Internal Audit. Counter Fraud and Whistleblowing Policies regularly reviewed, updated and approved by A & G Committee</p> <p>No issues arising</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>	No
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	No

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 and Governance Committee, is responsible for ensuring that Exeter City 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 and Governance 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 Exeter City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>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 and Governance 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 & 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 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>The Monitoring Officer is not aware of any instances of non-compliance or suspected non-compliance with laws and regulations since 1 April 2021</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Covid related delay notices have been received in respect of the bus and coach station, St Sidwell's Point and St Loyes. However, whether there is an obligation that could lead to a transfer of economic benefits and therefore sufficiently reliable estimate of the amount of the obligation cannot be made. There may also be additional claims in relation to build costs which remain unascertained at this point.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Exeter City 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 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

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

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Exeter City Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Exeter City Council • whether Exeter City Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>The group boundary has been reviewed and there have been no changes in related parties</p>
<p>2. What controls does Exeter City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Regular review of group boundary and assessment of relationships with the Council. Member Services also manage declaration of interests, so that Members/Officers omitted from participating in Council discussions/decisions where appropriate</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>As above. Authorisation limits are in place and the Constitution sets out how decisions are made and procedures to be followed, including delegations to officers and deputies and financial regulations.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above</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
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 Exeter City Council will no longer continue?	The Council has a robust financial management process, including a medium term financial plan and regular budget monitoring. The medium term financial plan is updated every one or two months and issues arising are brought to the attention of the management team. Budget monitoring includes a process for action where overspends are identified, involving either the Director or the Management Team as a whole to ensure mitigating steps are taken. The Council also holds reserves to protect against short, sharp economic (or other) shocks. These are monitored in line with the regular budget monitoring reports.
2. Are management aware of any factors which may mean for Exeter City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	ECC is not aware of any factors that will impact on statutory services being unable to continue. The mitigations listed above will help to protect against the current economic challenges facing the Country.
3. With regard to the statutory services currently provided by Exeter City Council, does Exeter City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Exeter City Council to cease to exist?	The City Council is in a position to continue to run its statutory services for the foreseeable future. Whilst there is a gap in funding anticipated over the life of the medium term financial plan, there is a clear plan in place (One Exeter) to address this.
4. Are management satisfied that the financial reporting framework permits Exeter City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes, there is no reason to assume that Exeter City Council will cease to be run as going concern. As set out above the financial position is such that there are sufficient safeguards in place to run Council Services for the foreseeable future.

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 and Governance 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 and Governance 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?	Critical judgements are disclosed in Note 3 to the accounts. Classes of transactions that are significant include; pension liability, valuation of PPE and business rates
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	We seek professional advice in respect of the accounting estimates
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	We seek professional advice in respect of the key accounting estimates and assess the impact of emerging accounting standards as adopted by the Code
4. How do management review the outcomes of previous accounting estimates?	We seek professional advice in respect of whether previous assumptions and estimates need to be updated
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	External valuers, JLL, were instructed to provide valuations in respect of 24 investment properties and 8 operational properties

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Accounting estimates that require specialist advice or knowledge are determined following a review of in-house expertise and capacity and are procured externally, where deemed necessary.
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>The instruction of Barnett Waddingham is co-ordinated on behalf of Devon authorities by Devon County Council, as the administering authority to the Devon County Council Pension Fund.</p> <p>The instruction to external valuers specifies that valuations are to be provided in accordance with Internal Financial Reporting Requirements and the current RICS Valuation guidance.</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?	Specialist advice is provided by suitably qualified professionals
<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. 	Accounting estimates are reported to Audit and Governance Committee as part of approving the annual Statement of Accounts

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, other than those set out in Appendix A
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	No changes to accounting estimates, as set out in Appendix A
12. How is the Audit and Governance 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: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Fair value for land/buildings defined as 'existing use' by the Council, where there is no market based evidence of fair value because the specialist nature of the asset, depreciated replacement cost is used	Full valuations are performed on a rolling basis to cover 20% of assets per annum, but with the top 4 highest value assets re-valued every year. Assets not included in the full valuation are assessed at the reporting date in order to ensure that carrying amounts are not materially different to current values	In-house and external RICS valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Council dwelling valuations	Existing Use Value – Social Housing, valuations use the beacon method, which is based on estimated vacant possession value, adjusted to reflect continuing occupation by a secure tenant	Full valuations are performed every 5 years and interim desktop valuations are performed in the intervening financial years to ensure the carrying amounts are not materially different at the reporting date	In-house valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Investment property valuations	Initially measured at cost and subsequently at fair value. Please refer to Level 2, Level 3 and fair value responses below.	Please refer to Level 2, Level 3 and fair values responses below	In-house valuers and external valuers	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Depreciation	Straight line depreciation, except reducing balance method for vehicles	Significant components in relation to the total cost of an asset are depreciated separately and asset lives and residual values are also assessed and adjusted if appropriate	In-house and external RICS valuers	Depreciation reflects the consumption of assets and assumptions are made in respect of the level of repairs and maintenance in relation to individual assets. In-house valuers benefit from records of property condition, planned maintenance and capital enhancements. External valuers perform inspections and liaise with the in-house valuers for further property information.	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	Valuation of the Pension Fund's assets and liabilities are provided by experts in this field, using financial assumptions that comply with IAS 19.	Specialist advice is provided by the external actuaries. The Council reviews the data to be provided to the actuary by Devon County Council, updating as necessary.	Valuations provided by external actuaries; Barnett Waddingham	The employer is exposed to a number of risks; investment risk, interest rate risk, inflation risk and longevity risk. An annual Pension Fund report is obtained to reflect the actuaries latest estimates and assumptions, in accordance with IAS 19.	No
Level 2 investments	Inputs that are observable for the asset, either directly or indirectly	Specialist advice is obtained	In-house valuers, treasury advisors and external valuers	Current market conditions and recent sale prices and other relevant information for similar assets may be used to inform the fair value and therefore a degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Level 3 investments	Significant unobservable inputs are used in the fair value measurement and uses the discounted cash-flow model	Specialist advice is obtained, as based upon unobservable inputs	In-house valuers, treasury advisors and external valuers	Assumptions include rent growth and vacancy levels and therefore degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion	No
Fair value estimates	Local authorities are required to use the assumptions that market participants (i.e. buyers and sellers in the principal or most advantageous market) would use when pricing an asset or liability under current market conditions	Specialist advice is obtained for fair value estimates	In-house valuers, treasury advisors and external valuers	It is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the reporting date under current market conditions. Therefore degree of uncertainty inherent with any valuation. We employ professional valuers and rely on expert opinion.	

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Provisions are measured at best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation	Provisions are identified through regular budget monitoring and engagement with budget holders, which flags potential issues to management	VOA data in respect of NDR appeals	Each provision is assessed on an individual basis to ensure it meets criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Accruals	Accruals are made in line with the Council's accruals accounting policy	Regular budget monitoring, engagement with budget holders, increasing the use of purchase ordering and reviewing the invoice register all support the identification of accruals	Qualified accountants and budget holders	Accruals are made when a reliable estimate can be made.	No
Credit loss and impairment allowances	Collective assessment for instruments with shared credit risk characteristics. Risk of default and risk of loss if default occurs for other financial instruments	Historically observed payment patterns adjusted for future expectations of recovery	Treasury advisors, Link	Each instrument within the scope of impairment rules are assessed separately in order to identify the basis of their calculation and whether risk of default has changed.	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?
Finance lease liabilities	n/a	n/a	n/a	n/a	n/a
PFI Liabilities	n/a	n/a	n/a	n/a	n/a



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