

Informing the audit risk assessment for East Sussex County Council 2023/24

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Purpose

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

Background

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

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

Communication

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from East Sussex County Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>No specific issues have occurred during the year that would have a significant impact.</p> <p>The proposed go-live of Oracle Fusion, originally planned for November 2023, has been delayed as development/testing continues.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by East Sussex County Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes – these are assessed by the Financial Accounting team each year.</p> <p>The accounts will be prepared on the basis of existing accounting policies, other than those that need changing due to any changes in financial reporting regulations. There have been no changes to these for 2023/24.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Financial instruments would include treasury investments such as term deposits, notice accounts, money market funds and local authority deposits. The Council also has an investment in the CCLA Local Authority Property Fund, long term loans and current debtors. On the borrowing side, the Council has debt with the PWLB and two market loans. The Council has no derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Not aware of anything</p>

General Enquiries of Management

Question	Management response	
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Not aware of anything	
6. Are you aware of any guarantee contracts? If so, please provide further details	South East Local Enterprise Partnership: potential outstanding loan repayment to SELEP by ESCC.	
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	Not aware of any.	
8. Other than in house solicitors, can you provide details of those solicitors utilised by East Sussex County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Sharpe Pritchard Solicitors were instructed by Legal Services to provide specialist advice on the Peacehaven PFI contract.	Fees: £1263
	Sharpe Pritchard were instructed by Legal Services to provide specialist advice on the PFI waste contract.	Fees: £14,501.79
	Sharpe Pritchard were instructed by Legal Services in relation to an employment matter.	Fees: £6932.88
	They are not working on open litigation or contingencies from prior years.	

General Enquiries of Management

Question	Management response
<p>9. Have any of the East Sussex County Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>Not that we are aware of.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>The Council uses Link Asset Services as its Treasury Management Advisors and PS Tax as VAT advisors.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>We carry out an IFRS 9 impairment review exercise each year on our loans, debtor balances etc and post the appropriate expected credit loss adjustments accordingly.</p>

Fraud

Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As East Sussex County 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 East Sussex County Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has East Sussex County 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</p> <p>Fraud risk is considered as part of the annual audit planning process and through the fraud risk assessment. The Internal Audit Service contains a dedicated team responsible for Counter Fraud. As part of its work, the team maintains a counter fraud risk assessment and an associated proactive fraud work plan.</p> <p>Updates on the Counter Fraud Team's work are provided to Statutory Officers (Chief Exec, Monitoring Officer and Chief Finance Officer) together with the Audit Committee on a regular basis.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Under the National Fraud Initiative, the Council provides data for a data matching exercise to compare records held by various bodies to identify potential error or fraud – these include those most at risk of fraud. This data includes payroll, pensions, creditors, residential care payments, concessionary travel passes, residents parking permits and clients in receipt of direct payments.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within East Sussex County Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>As an internal audit team we have been notified of a number of irregularities during the year. No significant frauds have been reported. A high level summary of cases will be presented in our annual report on irregularity work to Audit Committee in July. Quarterly progress reports are reported to Audit Committee informing members about irregularity investigations and fraud work undertaken by Internal Audit. Details of these can be found with the committee papers on the Council's website</p> <p>https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?Committeeld=517</p> <p>Statutory Officers regularly consider the emerging fraud risk and caseload of Internal Audit & Counter Fraud.</p>

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	See response to 3.
<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 East Sussex County Council where fraud is more likely to occur?</p>	<p>Yes – we acknowledge and understand our fraud risks, and we have a dedicated Counter Fraud team to respond to these risks. A risk assessment of potential fraud areas shows most as Low Impact and Low / Medium Likelihood.</p> <p>Yes – see below</p> <p>In line with key fraud risks highlighted nationally & consideration of the Council's own fraud risk profile, we believe areas to focus on are:</p> <ul style="list-style-type: none"> • Mandate Fraud • Procurement • Contracts • Schools • Direct Payments • Grants • Payroll
6. What processes do East Sussex County Council have in place to identify and respond to risks of fraud?	<p>Internal audit has a dedicated Counter Fraud team to prevent, detect and investigate fraud. The counter fraud strategy sets out our approach to tackling fraud. We undertake both proactive reactive work, and the proactive work seeks to prevent and identify fraud, and is targeted through a fraud risk assessment. We have in place a fraud reporting hotline in addition to a confidential reporting (whistleblowing) hotline to encourage the reporting of suspected fraud.</p> <p>We undertake fraud awareness workshops with services to promote our anti fraud culture and consider and identify the threat of fraud faced by individual services and teams.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for East Sussex County 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 Plan – annual plan Financial Regulations Scheme of delegation SAP and other systems control and reconciliations</p> <p>A sound system of internal control is in place and a balanced and flexible internal audit plan allows for sufficient coverage to provide assurance on the internal control environment, and improve any weaknesses identified.</p> <p>See response to question 6 – proactive and reactive counter fraud work. Anti-fraud culture. Fraud awareness training. Reporting mechanisms for escalating concerns & suspicions.</p> <p>Not that I am aware of.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>There is the potential to misreport any aspect of the Council's activity but a system of internal control is in place to ensure that the risks of misreporting are mitigated/minimised</p>

Fraud risk assessment

Question	Management response
<p>9. How does East Sussex County 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>By means of:</p> <p>promoting a counter fraud culture through agreed corporate standards / values in the Members & Officers Code of Conduct and the Counter Fraud Strategy (which now includes a statement on fraud by Leadership);</p> <ul style="list-style-type: none"> • annual disclosures by and guidance to Members and staff in gifts and hospitality, external interests and related party transactions; • incorporating ethical clauses and Bribery Act provisions in standard terms and conditions for contracts; • protections offered by effective recruitment and disciplinary processes. <p>Staff are encouraged to report concerns through the Confidential Reporting Policy including a confidential reporting hotline. Fraud eLearning and fraud awareness sessions are provided by Internal Audit & Counter Fraud.</p> <p>Staff are encouraged to report:</p> <ul style="list-style-type: none"> • Practice that puts people or the County Council at risk; • a criminal offence has been committed, is being committed or is likely to be committed; • failure or likely failure to comply with any legal obligations; • health and safety risks, including risks to the public; • damage to the environment; • something that is against County Council standing orders and policies; • information relating to any of these concerns that is being or is likely to be deliberately concealed; • weaknesses in procedure(s) that could put the organisation or people at risk. <p>No significant issues have been reported in 2023/24.</p>

Fraud risk assessment

Question	Management response
<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>Bank and authorised signatories Treasury management</p> <p>Policies & procedures are in place and managed by the established control framework, overall scheme of delegation, segregation of duties and IT Security processes.</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>Requirement for officers to declare any interests / personal relationships (Code of Conduct / Personal Relationships at Work Policy). Management responsible for assessing the risk and taking any control actions i.e. transferring responsibilities / decision making, removing delegated authority, restricting access to information, meetings etc</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Committee receive and review quarterly updates on the work of the counter fraud team. A high level summary of these will be presented in our annual report on irregularity work to Audit Committee in July. The progress reports capture the emerging risks of fraud (summary of investigations) for the council and any breaches of internal control. Details of these can be found with the committee papers on the Council's website.</p> <p>The Counter Fraud Strategy is reviewed and approved by the Committee (last refreshed in September 2021).</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The whistleblowing hotline continues to be monitored. Any complaints are risk assessed and investigated.</p> <p>There have been no significant concerns reported through the confidential reporting hotline in 2023/24.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports made in 2023/24</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 East Sussex County Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does East Sussex County 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>Internal Audit Plan Regular reporting and overview Legal Services and Departments ensure up to date on relevant laws and regulations</p> <p>Not aware of any.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Committee receive regular reports from Internal Audit; plus the overview of the Annual Government Statement.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>Not that I am aware of. The Pension Committee receives regular breaches report that sets out in line with the Breaches Policy those areas that have breached pension regulations and may need to be reported to the Pensions Regulator. No action has been taken by the Pensions Regulator and there are no financial implications arising from breaches in 2023/24.</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>Not that I am aware of.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does East Sussex County Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Litigation and claims are received and managed by the Council's Legal Services Dept and Insurance Centre of Expertise. The annual statement of accounts regarding Contingent Assets and Liabilities following enquiries of staff in service depts, Legal Services and Insurance. Provision within the Council's constitution and financial regulations regarding claims.</p>
<p>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</p>	<p>The Pension Committee has reported breaches to the Pensions Regulator in line with the Breaches Policy. This has not led to any financial impacts.</p> <p>ESCC continues to work through the actions arising from the last HMRC visit – progress had been impacted by changing staff at HMRC and COVID-19. No further communication received.</p>

Related Parties

Matters in relation to Related Parties

East Sussex County 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 East Sussex County 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 East Sussex County Council's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and East Sussex County Council whether East Sussex County Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>1. Central Government, 2. Members, 3. Chief Officers, 4. East Sussex Pension Fund, 5. Ashdown Forest Trust, 6. Sea Change Sussex, 7. High Weald AONB, 8. Pooled budgets with CCGs and 9. Orbis public sector partnership with Surrey County Council and Brighton & Hove City Council.</p> <p>No changes from the prior period.</p>
<p>2. What controls does East Sussex County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Review of prior year accounts and notes to the accounts. Partnership and pooling arrangements Issuing Related Party assurance letters to all Members and Chief Officers</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Financial Regulations set out scheme of delegations and approval process. SAP system has hierarchy of approval within.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Financial Regulations set out scheme of delegations and approval process. SAP system has hierarchy of approval within.</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 East Sussex County Council will no longer continue?	The integrated Reconciling Policy, Performance and Resources process ensures that the Council Plan and service priorities are aligned to performance targets and financial resources (revenue, capital and reserves). Quarterly RPPR reporting to Cabinet ensure oversight of all issues. Departmental performance/financial monitoring occurs monthly. Corporate Management Team meets weekly.
2. Are management aware of any factors which may mean for East Sussex County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	The 23/24 budget is showing an overall overspend of £25m at Q2. Whilst a balanced budget has been set for 2024/25, this required at £14.3m draw from reserves. 2025/26 MTFP shows a projected deficit of £45m; actions will need to be taken during 2024 to address the future deficit – these have yet to be determined.
3. With regard to the statutory services currently provided by East Sussex County Council, does East Sussex County 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 East Sussex County Council to cease to exist?	<p>ESCC will continue to exist in its current form for the foreseeable future.</p> <p>The 23/24 budget is showing an overall overspend of £25m at Q2. Whilst a balanced budget has been set for 2024/25, this required at £14.3m draw from reserves. 2025/26 MTFP shows a projected deficit of £45m; actions will need to be taken during 2024 to address the future deficit – these have yet to be determined.</p>
4. Are management satisfied that the financial reporting framework permits East Sussex County Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	<p>Yes.</p> <p>The RPPR process provides a solid framework for financial reporting and assessment of going concern.</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The material estimates within the accounts are relating to the LGPS Pension (IAS 19) liability, PPE valuations, PFI liability
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The budget monitoring process would identify any differences between budgets and actuals and whether any year end accruals were required. For any accrual over £100k a fuller working paper is required. In addition to this there would be checks on the data provided by external experts for reasonableness before they are entered into the accounts.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The items above in point 1 are provided by external experts (actuary, valuer and treasury advisors)
4. How do management review the outcomes of previous accounting estimates?	With PPE valuations a comparison exercise is carried out to review the movements on the individual valuations and more broadly across the general asset categories each year. Likewise with the IAS 19 report if the investments in the fund has been partly estimated then there would be a comparison of the final figures to the estimated ones once they become available.
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>It would depend on the nature of the estimate, in terms of whether there is in house expertise or whether it would be more appropriate to seek the skills of an external expert, and potentially also based on the materiality of the potential estimate.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Any data provided by an external body would be sense checked for reasonableness and for any significant movements before entering it into the accounts and would raise any queries with them. We would also ask the relevant teams to review any assumptions used to make sure they appeared reasonable. In terms of internal estimates, they would be expected to be supported by appropriate working papers and appropriately reviewed if the amount is material.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Any material accrual journal with entries over £1m needs authorisation</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The budget monitoring process would identify any differences between budgets and actuals, quarterly monitoring reports are taken to Cabinet to explain and significant variances</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The only material estimates used in the accounts are provided by professional external experts in those relevant fields and there are internal checks in place to make sure both these and any internal estimates are correct and can be supported. The Audit Committee was provided with a training session by Bruton Knowles and Treasury Management training has also been provided.

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	External Valuer values our portfolio of assets (usually on a one third rolling basis). Assets are initially measured at cost then will be revalued using the appropriate methodology for that asset class.	A review of the movement in valuations is carried out and explanations sought for material variances	Yes	RICS qualified valuer is used to provide the valuations. Sensitivity analysis impact is provided in the accounts for the valuations based on market value	No
Investment property valuations	Investment properties are measured initially at cost and subsequently at fair value. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually by the External Valuer according to market conditions at the year-end.	A review of the movement in valuations is carried out and explanations sought for material variances	Yes	RICS qualified valuer is used to provide the valuations. Sensitivity analysis is provided in the accounts for the valuations based on market value	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?
Depreciation	Asset register (Real Asset Management Asset 4000) calculates this based on the lives of the assets	Consistency checks on depreciation from previous year and reconciliation of journal output. Access to the system is also restricted.	Not a person but a dedicate/expert asset system is used.	Asset lives are provided on creation of a new asset and are updated by the valuer for most DRC/EUV assets. For Infrastructure component asset lives the life used for the new year spend is reviewed annually	No
Accruals	The ASC accrual is based on data/commitments in the ASC system Controcc at year end	Would be reviewed within the relevant team	No	Assumption is that the data within the Controcc system is accurate and complete	No
Credit loss and impairment allowances	A matrix is used to impair short and long term debtors (not AR customers) based on the level of assessed risk. Accounts receivable debtors are reviewed separately by the AR team	Sense checks on the movements are carried out	No	The split of debtors and the risk category of each asset is reviewed annually	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	Barnett Waddingham provides the IAS 19 return.	Sense check carried out on the data provided	Yes	N/A-data is provided externally	No
Fair value estimates	Link provide us with a report showing the fair value of all our borrowings based on the new loan rate.	Sense check carried out on the data provided	Yes	N/A-data is provided externally	No
PFI Liabilities	Information provided in a report by Link for the fair value of our PFI assets based on the new loan rate	Sense check carried out on the data provided	Yes	N/A-data is provided externally	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Insurance provision is based on data provided in the Self Insurance Fund Report provided by Marsh Ltd (provided every other year)	Insurance/Financial Planning would review the Marsh report to decide on the level of provision required. For other standard provision entries Managers of the Service Finance team would review if material	Yes for the Insurance report	Would depend on the circumstances of the provision being created.	No



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