

Informing the audit risk assessment for Epsom & Ewell Borough Council 2021/22



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 Epsom & Ewell Borough Council's (EEBC) external auditors and the Audit, Crime & Disorder and Scrutiny 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, Crime & Disorder and Scrutiny Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit, Crime & Disorder and Scrutiny 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, Crime & Disorder and Scrutiny Committee and supports the Audit, Crime & Disorder and Scrutiny 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 EEBC's management. The Audit, Crime & Disorder and Scrutiny Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p><u>Covid-19</u> has continued to impact the Council's expenditure and income streams, principally due to government restrictions earlier in the year. The financial impact is set out in the latest budget monitoring report to Audit Crime & Disorder and Scrutiny Committee on 3 February 2022, accessible via the Council's website.</p> <p>The Council has undertaken an <u>organisational-wide restructure</u> during 2021/22, to ensure staffing resources remain aligned to delivering the Four Year Plan and councillors' priorities. A summary of the restructure was reported to S&R Committee on 13 May 2021, which is accessible here.</p> <p>The Council's <u>commercial property portfolio</u> has experienced a number of significant tenant events during the year, including the following:</p> <ul style="list-style-type: none"> - At Parkside House, the tenant reduced their presence in the building from December 2021. The Council is working to re-let the vacant property areas as a high priority. - At 64-74 East Street, the tenant unsuccessfully tried to activate a break clause. The Council is in negotiations with the tenant over next steps. - The Ashley Centre lease is expected to be extended from 83 years to 150 years, securing rental income for the Council over the long term and a one-off revenue receipt. - The Council has also negotiated rent reviews at a number of other properties, generating back rent in excess of £800k. <p>The <u>wider economic environment</u> will also impact the Council's financial statements. In particular, elevated inflation, potentially rising interest rates, and volatile asset valuations (one cause of which being Russia's invasion of Ukraine) may affect the actuary's valuation of the pension liability and property valuations, which would in turn impact the 2021/22 financial statements. These impacts will only be quantified when the actuarial and final property valuation reports are received in April/May, and will be factored into the 2021/22 financial statements.</p>

General Enquiries of Management

Question	Management response
<p>2. Have you considered the appropriateness of the accounting policies adopted by EEBC? 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>Management considers that the accounting policies recommended by CIPFA's Code of Practice remain appropriate for EEBC for 2021/22.</p> <p>There have been no events or transactions that cause a change or new accounting policies.</p> <p>From 2022/23 (subject to national consultation), IFRS 16 may impact the 2022/23 accounts and a separate impact assessment will be undertaken for that in advance of the 2022/23 closedown.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>We do not use derivatives. The financial instruments used by the Council are unchanged in nature from those reported in the 2020/21 Statement of Accounts (Note 18)</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Covid-19 has continued to create new transactions, such as administering new government support grants to businesses and individuals. However, these have been processed through the General Ledger in accordance with the normal course of business.</p> <p>The Council's property portfolio has undergone a number of tenant events, highlighted in the response to question 1. All tenant events and transactions have been managed in accordance with existing leases and are, therefore, part of the normal course of business.</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 at the current time. Our external valuers will assess all investment properties, and other non-current assets due for re-valuation. The external valuers will also provide a market commentary report, which will be used by accountants to determine whether any other assets need to be impaired or revalued.
6. Are you aware of any guarantee contracts? If so, please provide further details	Management is not aware of any guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	<p>The Council is supporting an ongoing Health & Safety Executive investigation following an incident in December 2021 involving a waste collection vehicle. There are currently no known material financial impacts, however, this remains under review as it depends on the outcome of the ongoing investigation. Should any financial impact arise, it will be included in the financial statements in line with proper accounting practice.</p> <p>Earlier in the year, a fire at Ashley Centre car park caused some damage and loss of revenue from unusable car park spaces. The Council is claiming for the losses on insurance – the financial impact will be assessed and included in the financial statements in line with proper accounting practice.</p> <p>There are no other significant insurance claims that could affect the financial statements.</p>
8. Other than in house solicitors, can you provide details of those solicitors utilised by EEBBC during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<ul style="list-style-type: none"> • Trowers & Hamlins LLP – open commercial matters • Anthony Collins Solicitors LLP – Monitoring Officer • Cripps LLP – open property matters • South London Legal Partnership - open litigation matters, data protection, contracts • Tandridge Borough Council – general legal advice and planning matters • Eversheds – open planning and S106 matters • Davitt Jones Bould – open property and planning matters

General Enquiries of Management

Question	Management response
<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? If so, please provide further details</p>	<p>No such reports have been received.</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 subscribes to CIPFA's Better Governance Forum to receive regular bulletin/sector updates, but we didn't need to consult them on anything specific in the year. The Council is also a member of the National Anti Fraud Network; the Network identifies and shares potential frauds from across the sector, including around Covid related business grants, for the Council to be aware of.</p> <p>The Council also uses advisors for any service specific matters requiring independent specialist advice that is not available inhouse, some examples being:</p> <ul style="list-style-type: none"> • Knight Frank – advice on property-related matters • Link Asset Solutions – treasury management matters • Local Plan – multiple advisors
<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>The Council reviews at year-end all its assets, including debtor balances, loans and investments, for any indication of credit losses. At the current time, no material credit losses are expected. Should any arise, however, these would be recognised in the financial statements in accordance with IFRS9 and proper accounting practice.</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, Crime & Disorder and Scrutiny Committee and management. Management, with the oversight of the Audit, Crime & Disorder and Scrutiny 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, Crime & Disorder and Scrutiny Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As EEBC'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, Crime & Disorder and Scrutiny 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, Crime & Disorder and Scrutiny Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Crime & Disorder and Scrutiny 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 EEBC's management.

Fraud risk assessment

Question	Management response
<p>1. Has EEBC 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>Senior officers on Strategic and Corporate Management Teams submit annual 'Divisional Assurance Statements', which provide assurance that any frauds affecting the financial statements would be reported. Management considers that the financial statements are not materially misstated, either due to fraud or for any other reason, due to this process and other internal controls to minimise the risk of fraud, including:</p> <ul style="list-style-type: none"> - Whistle blower policy - Segregation of duties - Internal audit to investigate any high risk fraud areas <p>The annual budget report to Full Council contains a budget risk assessment and associated risk mitigations, to ensure risk management is linked to financial reporting. In addition, both risk management and quarterly budget monitoring reports are presented to ACDS Committee.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Council treats all transactions/accounts/disclosures as similarly at risk of fraud, and as such our internal controls apply to all financial transactions, including council tax and housing benefits.</p> <p>We are not aware of any instances of fraud, or of any:</p> <ul style="list-style-type: none"> • - Accounts, classes of transactions, or disclosures where fraud risks were identified • - Accounts, classes of transactions, or disclosures where fraud risks are likely to exist
<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 2021? If so, please provide details</p>	<p>The Council's policy to prevent fraud is approved by the Strategy & Resources Committee, prior to obtaining approval of full Council.</p> <p>Internal Audit provide regular reports to Audit, Crime & Disorder and Scrutiny Committee, and any actual instances of fraud would be reported to this Committee.</p> <p>Management are not aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within EEBC as a whole or within specific departments since 1 April 2021.</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>Management reports risk issues to those charged with governance in accordance with the Council's Constitution. Regular risk management reports are reported to Audit, Crime & Disorder and Scrutiny Committee.</p> <p>The Annual Governance Statement identifies any significant governance issues, along with mitigations where appropriate.</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 the Council where fraud is more likely to occur?</p>	<p>There is no evidence of any fraud. Management has identified a number of risks relating to the Covid-19 Business Support Grants and fraudulent claims that we monitor through NAFN advice.</p> <p>In terms of council tax and housing benefits, the Council has internal controls in place to mitigate the risk of fraud.</p>
<p>6. What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>Senior officers on Strategic and Corporate Management Teams submit annual 'Divisional Assurance Statements', which provide assurance that any frauds affecting the financial statements would be reported. Management considers that the financial statements are not materially misstated, either due to fraud or for any other reason, due to this process and other internal controls to minimise the risk of fraud, including:</p> <ul style="list-style-type: none"> - Whistle blower policy - Segregation of duties - Internal audit to investigate any high risk fraud areas - Fraud training will be undertaken in the coming year to ensure new managers are aware of their responsibilities and the processes in place to prevent fraud. - Fraud risks will be included on the Council's corporate risk register which is due to be refreshed in the coming months.

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for the 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>Senior officers on Strategic and Corporate Management Teams submit annual 'Divisional Assurance Statements', which provides assurance that internal controls are operating effectively.</p> <p>Internal audit regularly test internal controls/procedures and provide assurance reports to management and Audit, Crime & Disorder & Scrutiny Committee. Any material findings must have a mitigating management action, which is then followed up by internal audit to ensure implementation.</p> <p>We are not aware of any areas where there is override or inappropriate influence over the financial reporting process.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>The Council has internal controls and procedures in place to ensure the risk of misreporting is low.</p> <p>Internal audit regularly test internal controls/procedures and provide assurance reports to management and Audit, Crime & Disorder & Scrutiny Committee. Any material findings must have a mitigating management action, which is then followed up by internal audit to ensure implementation.</p>

Fraud risk assessment

Question	Management response
<p>9. How does the 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>Messages are communicated to staff through:</p> <ul style="list-style-type: none"> • Corporate Plans • Team meetings • Managers training • Feedback at Corporate Management Team • Internal Audit • Staff Update publications • People Framework • New Officers Code of Conduct to be updated. <p>The processes for contractors are set-out in the relevant contract.</p> <p>The above measures including the Council's Whistleblowing Policy ensure staff can report fraud without prejudice. Staff are expected to report full details of any known fraud.</p> <p>No significant issues have been reported in 2021/22.</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>Any post involved in financial transactions is considered at risk of fraud or corruption.</p> <p>Risks are managed through having appropriate internal controls, including appropriate authorisation limits for staff and segregation of duties for all financial transactions.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>There are no known changes to the prior period in terms of related parties.</p> <ul style="list-style-type: none"> - Strategic and Corporate Management Teams are responsible for implementing the Council's policies, and will be asked at year-end to declare any related party transactions for the 2021/22 accounts. - Elected Members have direct Control over the Council's strategy and policies. Members will also be asked to declare any related party transactions at year-end; for inclusion in the 2021/22 accounts. <p>The Council has policies in place to ensure related party relationships and transactions must be disclosed. Officers and members are required to declare any conflicts of interest prior to taking part in any decision-making process.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit, Crime & Disorder and Scrutiny Committee ?</p> <p>How does the Audit, Crime & Disorder and Scrutiny Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Council's policy to prevent fraud is approved by the Strategy & Resources Committee, prior to obtaining approval of full Council.</p> <p>Internal Audit provide regular reports to Audit, Crime & Disorder and Scrutiny Committee, and any actual instances of fraud would be reported to this Committee.</p> <p>Internal audit recommendations must have a mitigating management action. Internal audit follow-up to ensure all actions are implemented, with any outstanding actions reported to Audit, Crime & Disorder and Scrutiny Committee.</p> <p>A work plan is due to be presented to ACDS Committee in April, which will schedule work on the refreshed corporate risk register to include fraud risks.</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>Management is not aware of any.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>Management is not aware of any.</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, Crime & Disorder and Scrutiny Committee, is responsible for ensuring that EEBC'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, Crime & Disorder and Scrutiny 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?</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>Senior officers on Strategic and Corporate Management Teams submit annual 'Divisional Assurance Statements', which provide assurance that any frauds affecting the financial statements would be reported. Management considers that the financial statements are not materially misstated, either due to fraud or for any other reason, due to this process and other internal controls to minimise the risk of fraud, including</p> <ul style="list-style-type: none"> - Whistle blower policy - Segregation of duties - Internal audit investigate any high risk fraud areas - Internal audit test for compliance with laws and regulations as part of their reviews. <p>Furthermore, all Committee reports must have the legal comments documented within the report. All reports are reviewed by a legal officer or the Monitoring Officer.</p> <p>Regarding regulatory changes, the Accounts and Audit Regulations are expected to be updated to amend the target dates for draft and audited accounts to 31 July and 30 November 2022 –the authority expects to comply with these requirements.</p> <p>No other regulatory changes are expected to have a material impact on the financial statements.</p>
<p>2. How is the Audit, Crime & Disorder and Scrutiny Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All Committee reports and decisions must have the legal implications documented within the report; all reports are reviewed by a legal officer or the Monitoring Officer.</p> <p>The Council's Constitution and Annual Governance Statement set-out the Council's robust governance framework, providing further assurance to the Committee.</p>

Impact of laws and regulations

Question	Management response
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	Management is not aware of any.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	<p>Management is not aware of any claims at the litigation stage.</p> <p>However, the Council:</p> <ul style="list-style-type: none"> - Has received a number of planning appeals that it expects to defend; - Is defending an appeal against Health and Safety notices served by the Council; - May face a legal dispute with a commercial property tenant over operation of the lease. <p>In each case, the financial impacts will be assessed at year-end and included in the financial statements in accordance with proper accounting practice.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>At year-end, senior officers on Strategic and Corporate Management Teams submit annual 'Divisional Assurance Statements', which include details of any new potential litigation or claims and sufficient details to enable the finance team to judge the appropriate accounting treatment.</p> <p>This provides assurance that any new potential litigation or claims would be identified.</p> <p>Legal advice is sought where appropriate, and managers can access training on regulatory areas that are subject to change.</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>In respect of the Health & Safety Executive (HSE) investigation into the incident in December 2021 involving a waste collection vehicle, the Council has received a Notification of Contravention from the HSE, to which the Council has agreed a response date of 8 April 2022.</p>

Related Parties

Matters in relation to Related Parties

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

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in EEBC's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and EEBC Whether EEBC has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No known changes at the current time. Senior Officers (including the two new Directors and Head of Place) and Members will be required to sign updated Related Party Declarations for the 2021/22 accounts – these will be provided during the final audit.</p>
<p>2. What controls does EEBC have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Council has a formal policy on Disclosable Pecuniary Interests</p> <p>Formal declarations for related party transactions are required annually from all senior officers and all Members.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Members/Officers with declared related party relationships are not involved in the decision making process for related party transactions.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>All transactions are processed through the normal business procedures.</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 the Council will no longer continue?	Management subscribes to sector bulletins, such as LGA Updates, SOLACE and LG Futures, which would raise awareness of any such changes. Management is also represented at Surrey Chief Executives and Surrey Treasurers groups, which would discuss any such matters impacting the County.
2. Are management aware of any factors which may mean for the Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	Management is not aware of any such factors.
3. With regard to the statutory services currently provided by the Council, does the 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 the Council to cease to exist?	<p>There are no known or agreed plans for the Council to cease to exist, therefore management expects to continue delivering current statutory services for the foreseeable future.</p> <p>The form of some service delivery may change in future. For example, building control has been contracted to Elmbridge Building Control Service, and the Council continues to explore collaboration opportunities with other Surrey Districts, as they arise.</p>
4. Are management satisfied that the financial reporting framework permits the 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 management is satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements, and that the financial reporting framework permits this approach.</p> <p>The Chief Finance Officer provides assurance that the Council is a going concern, through the MTFS projections and section 25 report to Full Council on 15 February 2022.</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The main accounting estimates in the financial statements are disclosed in Note 4 to the Statement of Accounts. These are:</p> <ul style="list-style-type: none"> - Property Plant & Equipment valuations - Investment Property valuations - Pension Fund valuations <p>Through representation at Corporate Management Team and Committee meetings, Finance Team become aware of any significant transactions, events or conditions that would require accounting estimates.</p> <p>Senior officers on Strategic and Corporate Management Teams also submit annual 'Divisional Assurance Statements', which provides assurance that all material transactions, events and conditions, that affect the financial statements, have been captured.</p>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>The Council uses independent and suitably qualified external experts where appropriate.</p> <p>The Council's finance team employs suitably CCAB-qualified accountants to follow CIPFA and IFRS accounting standards when making accounting estimates.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Management follows CIPFA's Code of Practice and the accounting standards to make the key accounting estimates.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	Year on year changes in accounting estimates are reconciled within the Notes to the Statement of Accounts.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes are planned for 2021/22 - we expect to be consistent in the methodology used for accounting estimates.
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>Management follows standard sector practice by using RICS specialists for the valuation of its Property Plant and Equipment, and qualified actuaries for the estimation of the pension fund position.</p> <p>When specific technical accounting advice is required, the Council utilises Ichabods Industries for external advice.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<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>The Council provides it RICS property valuers with an egagement letter, setting out the activities that are required. The external estimates/valuations are then reviewed by qualified Council officers, with any unusual or unexpected movements/valuations queried and explanations sought.</p> <p>As a member of the Surrey Pension Fund, Surrey County Council engages the actuary Hymans Robertson LLP to calculate the pension fund position on our behalf.</p> <p>Council officers then review the IAS Results Report for reasonableness of assumptions. Any unusual or unexpected movements/valuations are queried and explanations sought.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>As above, the Council provides it RICS property valuers with an egagement letter, which sets out the activities that are required. The external estimates/valuations are then reviewed by qualified Council officers, with any unusual or unexpected movements or valuations queried and explanations sought.</p> <p>As a member of the Surrey Pension Fund, Surrey County Council engages the actuary Hymans Robertson LLP to calculate the pension fund position on our behalf.</p> <p>Council officers then review the IAS Results Report for reasonableness of assumptions. Any unusual or unexpected movements/valuations are queried and explanations sought.</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>Both the Section 151 Officer and Deputy S151 Officer review the estimates used in the Statement of Accounts. Following review, the S151 Officer certifies the SoA as free from material error and presenting a true and fair view.</p> <p>The SoA is also reviewed and approved by elected members of Audit, Crime & Disorder and Scrutiny Committee, before the audit is signed off.</p> <p>See Appendix A for the methods and models used.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>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?</p>	<p>No. The main accounting estimates in the financial statements are those disclosed in Appendix A and in Note 4 to the Statement of Accounts. These are:</p> <ul style="list-style-type: none"> - Property Plant & Equipment accounting - Investment Property Accounting - Pension Fund Accounting
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Management is satisfied that arrangements for the accounting estimates are reasonable, as the estimates are compliant with accounting standards and CIPFA's Code of Practice, and have been reviewed by the Council's finance team of suitably CCAB-qualified accountants. Where applicable, estimates are obtained from qualified, external (and therefore independent) actuaries and property valuers, providing further assurance that the estimates are reasonable.</p>
<p>12. How is the Audit, Crime & Disorder and Scrutiny Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>The Council's accounts are produced by appropriately qualified accountants and then certified by the CIPFA-qualified S151 Officer.</p> <p>Members can challenge officers on any aspect of the Statement of Accounts at the Audit, Crime & Disorder and Scrutiny Committee meeting.</p> <p>Internal audit periodically review general and capital accounting arrangements, which provides further assurance.</p> <p>External audit review also provides assurance.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	As set-out in the accounting policies in the Statement of Accounts - fair value for investment properties, current value or depreciated replacement cost for operational land and properties.	<p>Qualified experts are used to undertake the estimates.</p> <p>Segregation of duties requires two officers to post valuation movements in the general ledger.</p>	Yes – management have used RICS qualified firm Wilks, Head and Eve.	Note 4 of the Statement of Accounts discloses the degree of uncertainty and a high-level sensitivity analysis.	No
Depreciation	As set-out in our accounting policies - typically 50 years for buildings on a straight-line basis.	<p>Qualified experts are used to assess the expected asset life, which is used as the basis for the depreciation estimate.</p> <p>Segregation of duties requires two officers to post depreciation movements in the general ledger.</p>	Wilks, Head and Eve provide the valuations. In addition, officers in the finance team are qualified accountants i.e. experts. We use internal software called Real Asset Management to assist with depreciation estimates.	Note 4 of the Statement of Accounts discloses the degree of uncertainty and a high-level sensitivity analysis.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Significant accruals	The accruals accounting principal is applied. Civica Purchasing is used to identify system accruals, with a supporting manual process for sundry accruals.	Internal guidance and segregation of duties requires two officers to post accruals in the general ledger.	Officers in the finance team are qualified accountants i.e. experts.	Expenditure and income is recognised in the year to which it relates. There is little uncertainty, and no acceptable alternative to accruals accounting.	No
Valuation of pension liability	The valuation is undertaken in accordance with the principles of the relevant accounting standards - FRS102 and IAS19.	Qualified independent experts are used to undertake the estimates.	Expert firm Hymans Robertson LLP are engaged to undertake the estimates.	Notes 4 and 32 of the Statement of Accounts disclose the degree of uncertainty and a high-level sensitivity analysis.	No
Fair value of loans	Fair valuations are undertaken in accordance with IFRS16 by independent experts.	Independent industry experts are used to undertake the estimates.	Expert firm Link Asser Services are engaged to undertake the estimates.	Note 18 of the Statement of Accounts discloses the degree of uncertainty and input assumptions used in the valuation.	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?
NNDR Appeals provision	In accordance with CIPFA's Code of Practice, provisions are calculated based on an estimate of the probable liability.	Management use information provided by the Valuation Office Agency to identify outstanding appeals submitted by businesses.	Management use information provided by the Valuation Office Agency.	Management use past appeal success rates to assist in projecting future appeal success rates.	No
Credit loss allowance	Debtors are assessed annually and for doubtful debts, an allowance is made for expected future credit losses, which factors in the age and recoverability of the debt.	Outstanding debtor balances are monitored through the debtors control account.	Officers in the finance team are qualified accountants i.e. experts.	The estimate is based on expected future credit losses on outstanding debts. A sensitivity analysis is included within Note 4 of the Statement of Accounts.	No



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