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Informing the audit risk assessment – Somerset West and Taunton Council 2019/20

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Purpose

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

Background

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

This two-way communication assists both the auditor and the Audit Governance and Standards 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 Governance and Standards Committee and supports the Audit Governance and Standards 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 Audit Governance and Standards Committee's oversight of the following areas:

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	This is the first year of operation of the Council, which incorporates the responsibilities of two previous district Councils – Taunton Deane Borough and West Somerset. The assets, liabilities, rights and obligations of these predecessors were transferred to SWTC on 1 April 2019. SWTC accounting policies and estimation techniques are similar to its predecessors', however moving to a consistent approach may result in some adjustments (e.g. assessment of aged debt impairment).
2. Have you considered the appropriateness of the accounting policies adopted by Somerset West and Taunton Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes. The accounting policies have been reviewed to ensure consistency with the 2019/20 Code of Practice. No significant changes have been made and no events or transactions require new or altered accounting policies. The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 were introduced in response to COVID-19, however this has extended the deadlines for completing the accounts. CIPFA and Government considered options for reducing the reporting burden however no changes to the Code requirements were subsequently made.
3. Is there any use of financial instruments, including derivatives?	The Council has used a range of financial instruments including treasury investments and borrowing. No derivatives have been used.
4. Are you aware of any significant transaction outside the normal course of business?	No.

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?	The impact of COVID-19 on the economy and financial markets has been considered when valuing assets.
6. Are you aware of any guarantee contracts?	In March 2013, new governance arrangements were approved with the formation of a new company limited by guarantee to replace the previous Joint Committee. Taunton Deane, at its Full Council meeting on 4 March 2013, and West Somerset Council, at its Full Council meeting on 27 February 2013 elected to become Members of the Company – South West Audit Partnership Ltd – with effect from 1 April 2013. At the TDBC Full Council meeting on 4 March 2013 the Council offered to guarantee to the Somerset Pension Fund the level of deficit funding related to ex-TDBC employees, estimated at £268k
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Contingent assets and liabilities are disclosed in the financial statements in respect of a Low Cost Affordable Housing scheme, Municipal Mutual Insurance, and SWAP pension fund deficit (see above), and Hinkley Point C S106 agreements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Somerset West and Taunton Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Somerset West and Taunton has no in-house solicitors. From the 1 April 2015 the former TDBC legal function, now SWT, was devolved to Mendip District Council under an inter authority agreement for the provision of a shared legal service hosted by Mendip. External legal services have also been used for projects including: Grant Thornton LLP (Corporate Management), Clarke Willmott (various projects), Ashfords (Regeneration/other projects), Womble Bond Dickinson (transformation programme), Thrings LLP (heritage project), No5 Chambers (planning), Porter Dobson LLP (asset management).
9. Have any of Somerset West and Taunton Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council engaged the services of a range of advisors through the year. For example, Mace Ltd (project and cost management), Bruton Knowles (Estate Management), Stantec UK Ltd & Environment Agency (planning and environment strategy support, Jubb Clews Ltd (Heritage and risk), BH Compliance Ltd (Asbestos/Fire/Water compliance strategy), etc. Further details provided to auditor in working papers.

Fraud

Issue

Matters in relation to fraud

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

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

As Somerset West and Taunton Council's external auditors, 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, Governance, and Standards 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, Governance, and Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Governance, and Standards 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 Somerset West and Taunton Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Somerset West and Taunton Council assessed the risk of material misstatement in their 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 Somerset West and Taunton Council's risk management processes link to financial reporting?</p>	<p>The Council places reliance on its Financial Procedure Rules, and internal controls and audit functions to minimise the risk of fraud and error. The risk of material misstatement is considered to be low.</p> <p>Key decision reports and financial reports incorporate risk assessments including financial risks. Any fraud and error losses will be reflected in the reported income and expenditure for the authority, and material losses reflected in budget monitoring reports as well as report to Audit Governance and Standards Committee.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>A fraud prevention and detection service is operated in partnership with Powys Council, which includes transactional areas assessed as higher risk e.g. Right to Buy sales and benefit payments / council tax discounts.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Somerset West and Taunton Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No formal reports were made to the AGS Committee during 2019/20, however this will be added to the forward plan for 2020/21 including an 'annual report' for the year to August 2020 (the contract for the counter-fraud service operates August-August).</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Somerset West and Taunton Council where fraud is more likely to occur?</p>	<p>There are known areas of risk, and these are managed through the operation of appropriate controls as well as targeted reviews through internal audit and counter-fraud processes. A number of areas are reviewed each year. Specific higher risk locations have not been identified.</p>
<p>5. What processes do Somerset West and Taunton Council have in place to identify and respond to risks of fraud?</p>	<p>Management controls, business processes and procedures, internal and external audit functions, and fraud prevention and detection function.</p>
<p>6. Would you assess that the overall control environment for Somerset West and Taunton Council, including:</p> <ul style="list-style-type: none"> • the process for reviewing the effectiveness the system of internal control; and • internal controls, including segregation of duties <p>exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>A proportionate approach has been adopted to the internal control environment. Some risk has been accepted whilst the Council has adapted to organisational changes e.g. through the implementation of some lower value purchase transactions being input and approved by one officer. Wrap around controls are in operation such as exception reports to provide management assurance that controls are not being bypassed or manipulated.</p> <p>During 2019/20 the Internal Auditor has provided Partial Assurance overall, with some key control reports also assessed as Partial Assurance. The Council has now tightened its process for addressing and monitoring internal audit recommendations. There is an action plan within the Annual Governance Statement identifying areas where controls need to be strengthened and the AGS Committee will keep this under regular review.</p> <p>Staff and customers may report suspected fraud via the Council's website.</p> <p>There are no known or expected areas where there is potential for override of controls or influence over financial reporting.</p>

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	Controls in place should mitigate any risk of misreporting.
<p>8. How does Somerset West and Taunton Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p>	<p>The Council operates within a governance framework that includes a range of policies and Codes of Conduct, including Whistleblowing Policy and Anti-Fraud and Corruption Policy. Staff work within a behaviours framework, and conduct and performance matters are covered in team/line management arrangements.</p> <p>Fraud reporting is available on the website, and staff can raise concerns with their managers or report directly to the fraud team.</p> <p>No significant issues have been reported last year, however suspected fraud / error cases have been considered and investigated by the fraud team or audit team.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>No specific new assessment of 'high risk posts' has been undertaken. Financial controls are in place as part of the internal control framework that seek to minimise risk of fraud and error. Business processes include management / supervision checks and separation of duties on a proportionate basis. Adequacy of controls is reviewed through implementation of the internal audit plan, which is agreed with SMT on a risk-based approach. SMT monitor the delivery of the action plan in response to internal audit recommendations.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are disclosed in the accounts as appropriate. Elected Members and officers with a position of significant influence (e.g. CEO / Directors / S151 Officer) complete the register of interests and also complete a related parties return annually for the annual accounts reporting process. Relevant Codes are in place and communicated. Staff have employment contracts and are supported with access to relevant policies and training.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Governance, and Standards Committee? How does the Audit Governance and Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Governance Manager has a standing agenda item to update the Committee on governance matters. The Internal Auditor reports on a quarterly basis on delivery of the audit plan and will highlight significant fraud issues or risks identified. In future, a specific fraud risk update report will be added to the Forward Plan to provide a focussed report in this area.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes. The Council's whistleblowing policy has been followed and investigation undertaken where assessed as appropriate. Significant matters to bring to the attention of those charged with governance is included in the Monitoring Officer update the AGS Committee.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit, Governance, and Standards Committee, is responsible for ensuring that Somerset West and Taunton 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, Governance, and Standards 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 do Somerset West and Taunton Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to Somerset West and Taunton's Council's regulatory environment that may have a significant impact on their financial statements?</p>	<p>We have a Constitution which sets out our legal and procedural framework and includes the Financial Rule and Contract Standing Orders.</p> <p>We have an Officer Scheme of Delegation which means that the appropriate level of professional officer ensures that all relevant laws and regulations are complied with. Statutory post of the Monitoring Officer – who is able to report to Members any areas where she feels laws and regulations aren't complied with. If appropriate</p> <p>Both MO and S151 Officer had access to SMT last year, and are now formal members of SMT from August 2020, to give professional advice re laws and regulations as appropriate.</p> <p>The Council uses SHAPE Legal if there are any legal queries.</p> <p>All Committee reports contain a section on Legal implications and reports now have to be discussed and signed off by SMT before going forward through the democratic process</p> <p>Professionally qualified officers ensure that all relevant laws and regulations are followed. Job Descriptions and Person Specifications specify requirements to ensure recruitment and selection of appropriately qualified professional officers.</p> <p>We are not aware of any changes to the regulatory environment that may have a significant impact on the financial statements.</p>
<p>2. How is the Audit, Governance, and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The AGS Committee receives reports on matters such as compliance and health & safety, with higher risk areas included on the Audit Plan. There is also a standing item on the committee agenda for the Monitoring Officer to provide an update on governance/legal matters.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The only such matter is the claim by NHS Foundation Trusts in respect of business rates liability. Legal representation has been commissioned through the LGA, and a relevant contingent liability disclosure is included in the Statement of Accounts.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements do Somerset West and Taunton Council have in place to identify, evaluate and account for litigation or claims?	Any litigation claims that are received should be passed on to SHAPE Legal for evaluation and appropriate action.
6. Has there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Going Concern

Issue

Matters in relation to going concern

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

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

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

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Somerset West and Taunton Council? What was the outcome of that assessment?</p>	<p>Going concern status for local government is a presumption in law. The S151 Officer completes a going concern assessment considering financial position and this is reported to AGS Committee alongside the Statement of Accounts.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the budget and the financial information provided to the Audit, Governance, and Standards Committee throughout the year?</p>	<p>Budget and financial information is provided to the Executive and Full Council, which is scrutinised by the Scrutiny Committee. Assumptions are consistent with previous reports where appropriate and updated where necessary to reflect subsequent events and current information.</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in Somerset West and Taunton Council's financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Audit, Governance, and Standards Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	There are no significant issues casting doubt on assumptions made. A number of key control internal audits have highlight 'partial assurance' particularly where evidence for those audits was for the first few months of the year at the peak of organisational disruption through changes being implemented under transformation. Appropriate action has been taken to mitigate and address points raised with no significant impact on the underlying financial position of the authority.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	The Council's cash flow position is strong and well managed. The number of creditor payments paid over 30 day target was above average during first three months of the year, reflecting organisational disruption at that time rather than any cash flow issue.

Going concern considerations

Question	Management response
<p>6. Do Somerset West and Taunton Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of their objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>The Council (and its predecessors) experienced significant staff turnover as part of transformation. On recommendation from the CEO, the Council approved the creation of 4 Director posts to enhance leadership, with posts filled January/February 2020. The new leadership has realigned staff structure and resources during the latter part of the financial year, with the structure finalised in April. Capacity has been maintained to deliver priorities through agency and temporary staff in the interim.</p>
<p>7. Do Somerset West and Taunton Council have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes. The Council prepares/reviews its financial strategy annually, and budgets are prepared for approval by Council. The Council fulfils its requirement of setting a balanced budget, accompanied by statements from the S151 Officer regarding robustness of budget estimates and adequacy of reserves.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on Somerset West and Taunton Council's ability to continue as a going concern?</p>	<p>No. There is a high degree of uncertainty over future funding levels however prudent assumptions and estimates are included in the financial strategy and medium term financial plan. Financial planning and budgeting process will determine action required to ensure ongoing financial sustainability.</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit, Governance, and Standards Committee?</p> <p>How has the Audit Governance and Standards Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes – the S151 Officer reports the going concern assessment to the AGS Committee alongside the Statement of Accounts.</p> <p>The Committee will review and consider the assessment presented and advice by the S151 Officer.</p>

Related Parties

Issue

Matters in relation to Related Parties

Somerset West and Taunton Council are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Somerset West and Taunton Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over Somerset West and Taunton 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, or of any entity that is a related party of Somerset West and Taunton 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 entity's perspective but material from a related party viewpoint then the entity must disclose it.

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

Relating Parties

Question	Management response
1. What controls do Somerset West and Taunton Council have in place to identify, account for and disclose related party transactions and relationships ?	A review of related party transactions and disclosure requirements forms part of the year end programme of work to complete the accounts and supporting audit pack.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

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

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

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No. Judgements will be required in relation to additional funding provided by government in terms of treatment as principal or agency, however this will impact on the 2020/21 accounts. Relevant items are disclosed in Appendix A.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes.
3. How is the Audit Governance and Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounts are prepared by qualified accounting professionals in accordance with the CIPFA Local Authority Accounting Code of Practice and the Council's accounting policies, and certified by the Council's S151 Officer who must be a professionally qualified accountant. The external auditor presents and Audit Findings Report including his opinion regarding the true and fair view of the 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?
Property, plant & equipment valuations	Non-current assets are valued in accordance with the guidance published by the Royal Institute of Chartered Surveyors. The valuations were done on the basis of Existing Use Value, Market Value or, in the case of specialised properties on the basis of, Depreciated Replacement Cost in accordance with the RICS Valuation Standards. Valuations are reviewed and signed off by Sally Stark (asset specialist).	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	Yes, the valuer is a member of RICS. Valuations performed by Guy Harbord (Wilks Head & Eve) RICS qualified valuer. Valuations are reviewed and signed off Sally Stark (asset specialist).	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	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?
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	Consistent asset lives applied to each asset category.	Yes, the valuer is a member of RICS. Valuations performed by Guy Harbord (Wilks Head & Eve) RICS qualified valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for on all assets with a determinable finite life (except for investment properties) by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.	Consistent application of depreciation methods across all assets.	See above	See above	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?
Impairments	<p>Review of all assets undertaken annually to assess whether there is any indication that an asset may be impaired.</p> <p>Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.</p>	See left	Discussion with internal property team as appropriate.	N/A.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Financial instruments are valued at fair value based on the advice of external treasury consultants and investment fund managers.	All financial instruments are reviewed at year end and advice taken from professional advisors.	Yes	Instruments are valued on an individual basis with advice from treasury management professionals and investment fund managers.	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?
Provisions for liabilities	Provisions are made whenever an event takes place that give the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefit or service potential, and a reliable estimate can be made of the amount.	Each provision is separately reviewed by financial accountants and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Bad Debt Provision / expected credit losses	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the Comprehensive Income and Expenditure Account.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts, with accounting valuations agreed by a qualified accountant.	N/A	N/A	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	Accruals for income and expenditure have been principally based on known values. Where accruals have been estimated, the latest available information has been used.	No
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Defined benefit pension amounts and disclosures	Staff are members of the LGPS, administered by Somerset County.	Rely on the calculations made by the actuary. Challenge any unusual movements or assumptions with the actuary.	The actuary of the pensions scheme.	Reliance on the expertise of the actuaries of the pension scheme.	No
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body.	The Council are provided with an actuarial report by Barnett Waddingham (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No



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