



# Informing the audit risk assessment for Somerset West and Taunton Council 2020/21

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# Table of Contents

<b>Section</b>	<b>Page</b>
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Accounting Estimates	20
Accounting Estimates - General Enquiries of Management	21
Appendix A – Accounting Estimates	24

## Purpose

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

### Background

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

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

### Communication

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

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

Note: The Council revised its Committee structure in May 2021. Responsibilities of the Audit Governance and Standards Committee, which operated during 2020/21, have been separated into an Audit and Governance Committee and a Standards Committee in 2021/22. The committee names should be regarded as interchangeable when referred within this document.

## 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 and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The Council's second year has been significantly impacted by the Covid pandemic. Other key events for the financial statements have been the move from Function leads to Directorates, and the first year of the commercial strategy. From a financial perspective, the creation of the Council was not smooth and the delayed and drawn out completion of the previous year's audit of the accounts was very difficult for all parties. There were significant changes to the categories of PPE, including significant prior year adjustments. There have been several unusual and new issues such as dealing with business rates holiday, business grants, various COVID grant income arrangements presenting a dynamic and changing picture which has had to be assessed for proper accounting.
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?	<p>Yes. The accounting policies have been reviewed to ensure consistency with the 2020/21 Code of Practice. No significant changes have been made and no events or transactions require new or altered accounting policies.</p> <p>A report was made to the Audit, Governance and Standards Committee (AGS) on 7 December 2020 on Financial Control and Reporting Procedures.</p> <p>The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020 were introduced in response to COVID-19, and this has extended the deadlines for completing the accounts, including audit.</p> <p>The numerous changes caused by a wide range of grant schemes from the government has had a significant operational impact on the Council and its residents and businesses. The Council has been variously the principal and agent for these grants. Policies were not changed, and all grants will have been reviewed for accounting treatment.</p>
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?	<p>Yes. The significant transactions here will be the COVID grants and the business rates holiday for retail, hospitality, leisure and nurseries hereditaments.</p> <p>The Council also began its new commercial property investment strategy as a significant growth item. This was almost half way through by the end on 2020-21, with £44m of the £100m being invested. This scale of investment activity is now embedded within 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?	All non current asset valuations will have been carried out by Wilkes, Head and Eve on the basis of Instructions by SWT. Apart from those due to COVID, there are no changes of circumstances known about that would lead to impairment of non-current assets.
6. Are you aware of any guarantee contracts?	<p>The Council provides a guarantee to SWAP (South West Audit Partnership) in respect of local government pension fund deficit related to former SWT (its predecessors') employees.</p> <p>The Council also provides a guarantee in respect of local government pension fund deficit related to former staff employed within SWP (Somerset Waste Partnership) and its contracts.</p> <p>Neither separately nor jointly do these guarantees reach materiality.</p>
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The only potentially material loss contingency related to a claim by NHS hospitals to reduce their NNDR liability. The matter was considered through judicial process and the claim was withdrawn in March 2021.
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?	<p>Somerset West and Taunton has no in-house solicitors. There is an inter authority agreement for the provision of a shared legal service ("SHAPE") hosted by Mendip DC. External legal services have also been used for projects including: Bevan Britten, Clarke Wilmott, Ashfords, and Womble Bond Dickinson (property acquisitions).</p> <p>There is no open litigation or contingencies work from prior years</p>

## General Enquiries of Management

Question	Management response
<p>9. Have any of the 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?</p>	<p>No.</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 engaged the services of a range of advisors through the year. The following were paid over £50k during 2020/21:</p> <p>Mace Ltd (property - project and cost management), Stantec UK Ltd &amp; Environment Agency (planning and environment strategy support), Building Design Partnership Ltd (property – architecture), Lambert Smith Hampton (property – estate management), Gates Construction Consultant Ltd (property – project and cost management), Bruton Knowles (property - estate Management), Hardisty Jones Associates (economic development)</p> <p>Inspired to Achieve (service improvement),            Royal Haskoning DSG (property – phosphate strategy)            IPSIS Mori (Research), P A Consulting (Stronger Somerset)</p> <p>Other advisors paid less than £50k and of potential interest:</p> <p>ACS Ltd (Covid related benefits, business rate reliefs &amp; business grants), Arlingclose (treasury management strategy), Double Helix Public Services (corporate finance), LG Futures (local government finance).</p>

# Fraud

## Matters in relation to fraud

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

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

As Somerset and West Taunton Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from 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 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 Authority'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 and Governance Committee.</p> <p>The annual Risk and Opportunity Management Strategy was taken to Audit Governance and Standards Committee on 1 February 2021.</p> <p>The Internal Audit (SWAP) is undertaking a new Fraud Risk Assessment as part of the 2021/22 Audit Plan, which will be a feature of continuous audit.</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>

## Fraud risk assessment

Question	Management response
<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 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes.</p> <p>Periodic reports to Audit and Governance Committee relate matters in respect of fraud and risk, as well as reporting to the Committee in respect of internal audit findings, external audit findings, and the Annual Governance Statement. There would also be ad hoc reporting as may be required by the Monitoring Officer and/or S151 Officer. An annual report on the results from the work of the counter-fraud service delivered by Powys Council will be included in the Forward Plan for Audit and Governance Committee.</p>
<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>The impact of COVID introduced new, potentially significant, risks relating to the grants received and administered as principal or agent. These risks related to those potentially receiving the grant and those administering / determining them. Pre- and post-payment assurance measures have been implemented to minimise the risk of fraud and error.</p>
<p>5. What processes do Somerset West and Taunton Council have in place to identify and respond to risks of fraud?</p>	<p>The Council's fraud prevention strategy has been reviewed and presented to the AGS (Audit, Governance and Standards) Committee [Anti-Fraud Framework &amp; Fraud Update Report 12 April 2021]. This included updates to the Anti-Fraud Policy, Whistleblowing Policy, Anti-Bribery Policy and Money Laundering Policy.</p>

## Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Somerset West and Taunton Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <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)?</p>	<p>A proportionate approach has been adopted to the internal control environment. Some risk has been accepted whilst the Council 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 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. Key controls were reviewed as part of the 2020/21 Internal Audit Plan, with completed actions and improvements leading to improved assurance opinions from the Internal Auditor to date. The completion of actions in response to audit recommendations is overseen by Directors with quarterly reports presented to the SMT Performance Board for review. Progress in addressing higher priority (1 and 2) actions is also reported to the Audit and Governance Committee on a quarterly basis.</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>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Controls in place should mitigate any risk of misreporting.</p>

## Fraud risk assessment

Question	Management response
<p>8. How do Somerset West and Taunton Council communicate and encourage ethical behaviours and business processes of its staff and contractors? How do you encourage staff to report their concerns about fraud? 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? How are the risks relating to these posts identified, assessed and managed?</p>	<p>COVID grants created a new risk due to the sums involved, need for new procedures and unavoidably complex working arrangements. The administration of grants and discounts was undertaken by staff within Revenues, Benefits and Operational Support (Accounts Payable) teams. Pre- and post-payment assurance measures have been implemented to minimise the risk of fraud and error.</p> <p>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? How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>There are no areas of particular potential interest at present. Care will need to be taken through the proposed creation of a Special Purpose Vehicle group / company structure to ensure fraud risk is controlled.</p> <p>Related party transactions are disclosed in the accounts as necessary.</p> <p>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.</p> <p>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 and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Governance Manager / Monitoring Officer has a standing agenda item to update the AGS Committee on governance matters.</p> <p>The Internal Auditor reports on a quarterly basis on delivery of the audit plan and will highlight significant fraud issues or risks identified. The External Auditor reports their findings and opinion in respect of the annual accounts and arrangements for securing value for money.</p> <p>Fraud risk has received a higher profile during 2020/21, leading to the report to AGS on 12 April 2021 (see 5 above).</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

## 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 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 does 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 the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Constitution sets out our legal and procedural framework and includes the Financial Procedure Rules and Contract Procedure Rules. There is an Officer Scheme of Delegation which means that the appropriate level of professional officer ensures that all relevant laws and regulations are complied with.</p> <p>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. Both MO and S151 Officer had access to SMT during 2020/21, and are now formal members of SMT from August 2020, to give professional advice as required. The Council uses SHAPE Legal, a shared service based at Mendip DC. 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. 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 and Governance 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 &amp; safety, with higher risk areas included on the Internal 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 2020 with an on-going impact on the 2020/21 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>No.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does 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?	An minor issue arose relating to accounting for VAT and election expenses. This led to repayment plus potential (low value) penalties but the latter have been waived (March 2021) following agreement to introduce revised procedures.

# Related Parties

## Matters in relation to Related Parties

Somerset West and Taunton Council is 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 Somerset West and Taunton Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- 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 Authority, or of any entity that is a related party of the Authority.

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 [type of body]'s perspective but material from a related party viewpoint then the Authority 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 Somerset West and Taunton Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Somerset West and Taunton Council</li> <li>• Whether Somerset West and Taunton Council has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	<p>No</p>
<p>2. What controls does Somerset West and Taunton Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>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. Members are also required to disclose interests in line with the Member Code of Conduct, with such interests publicly disclosed.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Somerset Waste Partnership – SWT has members on the Board and officers on the Senior Management Group, with Business Plan approved by partner authorities. Separation of duties is embedded in financial processes, and also the requirement to disclose interests as described above.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Induction training plus policies in place for disclosure. Interested parties are required to be disclosed to Monitoring Officer, and would seek independent approval.</p>

# Accounting Estimates

## Matters in relation to Accounting Estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity'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 entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

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

Specifically do Audit and Governance Committee members:

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

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

## Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	None. Finance officers are working with the auditor to set out suitable description of material judgements and estimates through the new ISA540 Overview Analysis requirements.
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	There is no separate process relating solely to accounting estimates. The risk management process considers and manages both strategic and operational risks. The key element to this is the performance management framework. We also have separate approval for journal transactions >£50k. We have qualified accountants preparing accounts and giving advice to management/budget holders, and we have internal and external auditors to provide assurance.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Through the performance management framework. This is a comprehensive process that underpins, facilitates and enables the strategic and operational delivery of the Council's Plan. Any changes to key accounting estimates are a consequence of actions in relation to this.</p> <p>We ensure any accounting estimates lead to accounts that provide a true and fair view. We therefore subscribe to CIPFA publications to access up to date Codes, Guidance and other relevant regulatory guidance; we subscribe to CIPFA FAN and TIS Online; we monitor other updates such as CIPFA LAAP Bulletins and CIPFA e-bulletins; Arlingclose issue local authority guidance; and we use relevant expertise such as LG Futures. The finance team uses these and other measures to ensure knowledge and awareness is up to date.</p>
4. How do management review the outcomes of previous accounting estimates?	This occurs during the compilation of budget monitoring, the Outturn reports and the Statement of Accounts.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No.

## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The relevant expertise is identified and applied as required in all cases. If there is a need to buy in specialised skills or knowledge then this happens. Examples are: the Council contracts to use suitably qualified RICS Valuers to undertake PPE Valuations (currently Wilkes, Head and Eve); Internal Audit is bought in using the SWAP (South West Audit Partnership); and Treasury Management expertise comes from Arlingclose. Actuaries (Barnett Waddingham) provide expertise to value pension fund assets and liabilities, following relevant regulations and Codes, for disclosure in SWTC accounts.</p>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Council applies the control activities relevant to the particular accounting estimate, and in line with the Council's performance management framework.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Most elements of the performance management framework are linked in to either monthly or quarterly monitoring.</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"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>The answer to this question depends on the accounting estimate involved. Finance officers are working with the auditor to set out suitable description of material judgements and estimates through the new ISA540 Overview Analysis requirements. Responsibility for approving the Statement of Accounts as presenting a true and fair view sits with the S151 Officer, who must be a professionally qualified accountant.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. 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)?	Yes, due to Covid. In particular the identification of principal or agent approach to accounting for COVID related grants. Further judgement is required in respect of provisions for expected credit losses (bad debts) and business rates refunds due to valuation changes under the Valuation Office's Check Challenge Appeal process.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through the reports which go to that Committee. The Forward Plan identifies a comprehensive schedule including items from areas such as Finance, Governance, Internal Audit, and External Audit. The S151 Officer is professionally qualified and certifies the accounts as giving a true and fair view, and the external auditor provides his professional opinion on the same through reports to those charged with governance.

## 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 and equipment valuations	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.	Review within WHE and by SWT – qualified Valuer, and Finance Consistent asset lives applied to each asset category.	Yes. Valuations made by independent (external), RICS qualified professionals in Wilkes, Head and Eve (WHE).	As stated in the Accounting Policies e.g. Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	Not usually, and will be stated if has happened
Estimated remaining useful lives of PPE	Depends on the asset – per Accounting Policy	See above	See above	See above	See above
Depreciation and amortisation	Depends on the asset – per Accounting Policy	See above	See above	See above	See above
Impairments	Depends on the asset – per Accounting Policy	See above	See above	See above	See above

## 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?
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
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
Accruals	We use standard accruals accounting.	Monthly management accounts provide 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

## 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?
Non Adjusting events – events after the balance sheet date	These are identified as the Statement of Accounts is compiled by: Conversation with SMT during Outturn report derivation; and Networking with other S151 officers (Somerset, nationally)	Performance Management Framework	Probably not, given these are non adjusting events.	Does the event have the scope to create a significant, if not necessarily material (by definition), change in the Council's financial position.	No
Defined benefit pension amounts and disclosures	Staff are members of the LGPS, administered by Somerset County. Report from the Actuary satisfies IAS19.	Rely on the calculations made by the actuary.  Challenge any unusual movements or assumptions with the actuary.	The actuary of the Pension scheme.	Reliance on the expertise of the actuaries of the pension scheme. In 2020/21 the Council has opted to use the assumptions suggested by the actuary. This is a change from 2019/20 when a different salary assumption was used. Valuations have been requested later, at and on 31March 2021, to avoid estimation uncertainty.	Yes
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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