



Informing the audit risk assessment for Oadby & Wigston Borough Council 2021/22

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Table of Contents

Section	Page
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
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23

Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>A significant external key event that affects the delivery of council services and the local economy is COVID.</p> <p>Material estimates will include, property valuation and pension valuations. OWBC uses experts to support our assessments of these estimates, however a small change in some of the underlying assumptions could have a significant impact on the financial statements.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Oadby & Wigston Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes, the Council continually review the appropriateness of our accounting policies, which are based on those included in the CIPFA code guidance. The audit committee of the council reviews and approves the accounting polices each year. There are no events that would give rise to us requiring to change any of the policies we adopted in the prior year.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>There are no use of any financial derivative instruments.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No, we are not aware of any significant transaction outside 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?	Impairment review of NCA is done as part of year end close down and we did not have any material impairments.
6. Are you aware of any guarantee contracts? If so, please provide further details	The Council does not have any guarantee contracts as of 20/21.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No we are not aware of any.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Oadby & Wigston Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The council utilised the following solicitors during the year:</p> <ul style="list-style-type: none"> • Brown Jacobson LLP - Advice to the council on extricating itself from a delegation for the joint provision of ICT and moving provision in house • Freeth Cartwright LLP - Advice to the council on the Leisure Contract with SLM and recovery of Brocks Hill for the Council Offices to be relocated and potential lease for new café • Constantine Cannon LLP * - Externally funded group litigation in respect of a Truck cartel - only payments VAT • Anthony Collins * - Recovery of debt due arising from works in default following demolition of building and site clearance <p>Those with an asterisk are where there are ongoing litigation cases being worked upon.</p>

General Enquiries of Management

Question	Management response
9. Have any of the Oadby & Wigston Borough 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	We are not aware of any cases.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>The following advisor were consulted during 2021/22 on the following issues/projects:</p> <ul style="list-style-type: none"> • JB Consulting - They were instructed by Economic Regen to provide advice on the development of the old Oadby Pool Site
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	No as we don't have any Financial Instruments.

Fraud

Matters in relation to fraud

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

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

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

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

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

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Oadby & Wigston Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Oadby & Wigston Borough 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 Oadby & Wigston Borough Council's risk management processes link to financial reporting?</p>	<p>Yes this has been assessed.</p> <p>During 2021/22, the Council's Internal Audit provider, C W Audit Services provided a strategic and operational risk management service for the Council, where they regularly met staff to review processes in each of the departments. From 22/23 risk management service has been bought in-house.</p> <p>The Risk management information is reported to Internal audit. Further risk assessment processes related to the preparation of accounts are completed based upon any audit issues raised by both Internal and External Audit.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The three highest perceived areas of fraud risk are procurement and treasury-related transactions and covid grants related fraud.</p> <p>Creditors –duplicated invoices, incorrect bank details, duplicated payments</p> <p>Increased liability for Covid Grants related fraud.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Oadby & Wigston Borough Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>The were 12 cases of fraud payments made during the issuing of the Business Grants which have since come to light. These amount to £61,669.21 and been passed on to Legal team for consideration. The recovery process has started but no money has yet been received.</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>The Council has a Policies register which is maintained.</p> <p>Internal controls such as segregation of duties and relevant authority levels are in place and managed.</p> <p>A specific fraud risk is included in the Council's Strategic Risk Register and this is monitored and reported to Audit Committee on a quarterly basis.</p> <p>At the time of responding to this document, an internal audit report is under review following assurance work in respect of fraud arrangements.</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 Oadby & Wigston Borough Council where fraud is more likely to occur?</p>	<p>Yes, we have an identified fraud risk on our Strategic Risk Register.</p> <p>We do not have any concerns there are areas at risk of fraud.</p> <p>No.</p>
<p>6. What processes do Oadby & Wigston Borough Council have in place to identify and respond to risks of fraud?</p>	<p>We have a number of procedures in place for reporting fraud, including an online referral form, a hotline and a whistle blowing process. All fraud referrals are risk assessed. The findings of internal audit work on fraud are reported with appropriate disciplinary and or systems related recommendations.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Oadby & Wigston Borough 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>The Council does have various internal controls in place which are effective. These are reviewed by our Internal audit team and brought to the attention of Senior Management and the Audit Committee. Annual review of internal controls is undertaken by management as part of AGS.</p> <p>Our financial reporting processes include several controls from layers of checking through to reviews prior to finalisation of our reporting. All financial monitoring reports undergo differing levels of review before publication and public reporting.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None known but there are controls and processes in place to mitigate any potential misreporting.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Oadby & Wigston Borough 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>This is communicated through the policies and procedures published on the Intranet. The staff code of conduct forms part of the contract of employment. The code sets out the standard of conduct and reflects the values and behaviours that all employees are expected to follow.</p> <p>Staff can report matters to their line manager, Senior Manager or to HR on any concerns.</p> <p>The Council has an Anti-Fraud and Corruption Strategy, a Whistleblowing Policy and an e-learning fraud awareness in our Learning Pool Portal in place.</p> <p>No significant issues have been reported in the year</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>Those involved in the procurement of goods and services and managing contracts, those involved in the planning process and those involved in the processing of high value transactions Those who can raise payments on Bankline.</p> <p>The Council migrates risk by the segregation of duties for posts and electronic authorisation processes. Furthermore, the procedures and policies are regularly reviewed.</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>We are not aware of any related party relationships or transactions that could give rise to instances of fraud. Senior officers are required to complete Register of Interests form annually and members are required to declare any relevant interests at Board and Committee meetings.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The audit committee reviews the risk management reports and receives regular updates. Challenges are made to officer if there are areas of concern. Further information or an investigation could be requested.</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>No we are not aware of any or potential complaints by whistle blowers.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</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 Committee, is responsible for ensuring that Oadby & Wigston Borough Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Oadby & Wigston Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Oadby & Wigston Borough Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>CMT Managers are responsible for ensuring that laws and regulations relevant to their services are observed including any changes to the regulatory environment.</p> <p>The Monitoring Officer and the Council's legal team advise the Council's leadership, councillors and departments on changes to the legal and regulatory environment that impact on the Council. The Council also operates a Corporate Management Team (CMT) and Senior Leadership Team (SLT).</p> <p>We are not aware of any changes to the regulatory environment which will have a significant impact on the Council's financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council presents it's assurance that arrangements are in place in line with all relevant laws and regulations as part of it's Annual Governance Statement.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>There are no actual or potential litigation or claims that would affect the 2021/22 financial statements.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Oadby & Wigston Borough Council have in place to identify, evaluate and account for litigation or claims?	Any insurances claims are recorded on a hub and all legal claims are registered and maintained by our legal department. The Council's Monitoring Officer is consulted on a regular basis to ensure the appropriate awareness is in place.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No.

Related Parties

Matters in relation to Related Parties

Oadby & Wigston Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

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

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'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 Oadby & Wigston Borough Council'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 Oadby & Wigston Borough Council whether Oadby & Wigston Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There have been no material changes in the related parties.</p>
<p>2. What controls does Oadby & Wigston Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Any new related parties will be identified through the preparation of the Council's year-end accounts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Transactions with related parties are subject to the same authorisation and approval arrangements as other transactions, that is:</p> <ul style="list-style-type: none"> There is a delegated authority list which identifies officers financial limit levels of authority to approve expenditure. Expenditure above an officer's authorisation limit would then be allocated to an officer with a higher limit. The S151 Officer is responsible for approving officers' limits. These limits are periodically reviewed with the statutory officers to ensure they are appropriate.
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>All transactions including any outside the normal course of business are subject to the same authorisation and approval arrangements including controls enforced through adherence to the financial procedure rules.</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
<p>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 Oadby & Wigston Borough Council will no longer continue?</p>	<p>Quarterly reporting to Service Delivery Committee (non-financial performance) and Policy, Finance and Development Committee (financial performance) ensures oversight of all issues. Monthly service performance and financial monitoring is conducted monthly. The Senior Leadership Team meets weekly and Corporate Management Team meets fortnightly.</p>
<p>2. Are management aware of any factors which may mean for Oadby & Wigston Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>None at this time. The budgeted position on the General Fund for 2022/23 was balanced utilising £145k of general reserves. The current forecast shows a revised deficit position of £644k for the year as a result of the ongoing and escalating inflation crises. Actions have been determined to mitigate this expenditure. Any remaining deficit will be funded via reserves. The forecast position for 2023/24 is a further projected deficit, but this is contingent on the plans for Council services brought forward as part of budget setting and the outcome of the 2023/24 local government finance settlement which is not due until December 2022.</p>
<p>3. With regard to the statutory services currently provided by Oadby & Wigston Borough Council, does Oadby & Wigston Borough 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 Oadby & Wigston Borough Council to cease to exist?</p>	<p>OWBC expects to continue to deliver its statutory services for the foreseeable future.</p> <p>The Medium Term Financial Plan to 2026/27 shows ongoing projected year-on-year deficits and a cumulative deficit of £2m. Savings of £976k have been set out in a Sustainability Plan.</p> <p>Statutory services will continued to be delivered.</p>
<p>4. Are management satisfied that the financial reporting framework permits Oadby & Wigston Borough 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>	<p>Yes management is satisfied that the financial statements are prepared on a going concern basis and provides a faithful representation of the items in them.</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The need for material accounting estimates is considered for property asset valuations, pensions assets, transactions relating to COVID-19 impacts and and liabilities values and provision for other liabilities.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The operational risk management process will highlight any changes to circumstances which could lead to an assessment of accounting estimates and/or assumptions may require revision. Each area is subject to robust scrutiny as part of the Year-end Accounts closedown process and all accounting estimates are reviewed.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Review of data and information required are done as part of setting the closedown timetable. Reviews of External and Internal comments on any points that need to be addressed to ensure or enhance the accuracy data, methods used for accounting estimates.
4. How do management review the outcomes of previous accounting estimates?	Accounting estimates will be reviewed as the natural course of some of these estimates where historical data/performance provides the starting point of estimation. Other areas of estimation are subject to valuation from first principles each year
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No changes in year.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Review of the finance team skills and assessing any training or supervision required to ensure specialised skills are applied and there is an appropriate level of knowledge and where external support is required, this is engaged as necessary.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Follows CIPFA code of practice guidance and financial regulations. There is a degree of reliance on the work of externally procured experts although all accounting estimated will be subject to a test of reasonableness. For the key areas where we use external experts, pension actuarial and property valuation, there are industry wide standards which provide a high degree of quality assurance.
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?	External experts provide comprehensive reports detailing the basis and output of their work which provides management the facility to understand and challenge accounting estimates.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <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. 	Work produced is reviewed by management and reviewed and challenged by the audit committee. CIPFA guidance and use of standard models used by other local authorities. Adhere to standard accounting practices.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Management would be made aware of any key issues by S151 Officer of any key issues, events etc
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes they are reasonable.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Audit committee is consulted on accounting estimates and S151 Officer meets periodically with the Chair of that committee to discuss issues.



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