



Informing the audit risk assessment for Folkestone and Hythe Council 2020/21

Paul Dossett
Partner
T 020 7728 3180
E paul.dossett@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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
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 Folkestone and Hythe's Council's external auditors and Folkestone and Hythe'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 and Standards 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 Council's oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from Folkestone and Hythe's 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 ongoing impact of the pandemic during 2020/21 will have an impact on the financial statements in terms of revenue income and expenditure, the valuation of assets and collection fund income. The Housing Management service was also brought back in-house in October 2020 which will have an impact on the HRA revenue income and expenditure.
2. Have you considered the appropriateness of the accounting policies adopted by Folkestone and Hythe Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are considered to be appropriate for the preparation of financial statements and there are no proposed changes to accounting policies for 2020/21.
3. Is there any use of financial instruments, including derivatives?	<p>Financial Liabilities: Loans borrowed (from the Public Works Loan Board and other lenders) for treasury management purposes Trade payables for goods and services</p> <p>Financial Assets: Bank account Investments made for treasury management purposes Loans made for service purposes, including Oportunitas Equity investment in Oportunitas Trade receivables for goods and services delivered</p>
4. Are you aware of any significant transaction outside the normal course of business?	Purchase of Folca (former Debenhams building) in May 2020.

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?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No

General Enquiries of Management

Question	Management response
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Folkestone and Hythe Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Becket Chambers – criminal proceedings, civil proceedings (planning injunction), disrepair cases, housing advice and drafting Anti-social Behaviour Order, excluded licenses advice and general advice</p> <p>Browne Jacobson - Property</p> <p>Invicta Law - General Contract and Procurement Advice</p> <p>Bevan Brittan - Governance, Procurement and Public Law</p> <p>Attwells - Planning JR</p> <p>Pinsents & Whitehead Monckton - Option agreements</p> <p>Exchange Chambers - Costs Counsel</p> <p>Mischon – Group action litigation in respect of VAT</p> <p>ASB Law - Development</p>

General Enquiries of Management

Question	Management response
9. Have any of Folkestone and Hythe 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?	Amandeep Khroud is the solicitor to the Council. Amandeep reports to the Audit and Governance Committee. Nicola Murton is a solicitor who heads up the Legal Services Team and manages the team on a day to day basis. The legal services team were consulted on many issues during the last financial year.

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 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 Folkestone and Hythe 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 Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Folkestone and Hythe Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The Council feel that the risk of material misstatement in the financial statements due to fraud is minimal.</p> <p>The Council has a robust system of internal controls in place that are regularly independently reviewed by the East Kent Audit Partnership (EKAP). The audit plan is drafted with relevant risks in mind. These reviews are reported to the Audit & Governance Committee on a quarterly basis providing assurance. There have been no known incidents during the financial year where material financial fraud is known to have occurred.</p> <p>The audit plan is drafted with reference to both the Council's risk register and known emerging risks in the sector. We undertake the frequency of budget monitoring on a risk based approach, so that high risk areas such as salaries are monitored more frequently than low volume, low risk transactional areas.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Housing Benefit and Council Tax Reduction are the areas determined as most at risk of fraud. Since the Housing Service returned in-house we are starting to explore tenancy fraud. During 2020/21 we have also put a number of processes in place to manage the potential risk of fraud within Covid business grants and reliefs.</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 Folkestone and Hythe Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No</p> <p>In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required.</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 Folkestone and Hythe Council where fraud is more likely to occur?</p>	<p>No</p> <p>As stated above Housing Benefit and Council Tax Reduction are the areas determined as most at risk of fraud. Since the transition of the Housing Service back to the Council there is an increased risk of tenancy fraud and the business grants and reliefs announced by Government in response to the pandemic are both areas at risk of fraud.</p>
<p>5. What processes do Folkestone and Hythe Council have in place to identify and respond to risks of fraud?</p>	<p>As stated above, the results of the ongoing Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems, and confirm any instances of fraud. The Council has a dedicated qualified Fraud investigation resource which is primarily utilised for Housing Benefit & Council Tax Reduction fraud but can also be deployed to investigate other suspected instances of fraud where required. More broadly, the Council also has policies in place for Anti-Corruption, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. The Councils Fraud response plan specifically outlines how Members, staff and members of the public can raise concerns regarding fraud or corruption should they need to and provides a framework for the resulting investigation where required.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Folkestone and Hythe 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)?</p>	<p>The Council is an equal partner in EKAP who employ experienced professional internal auditors. Annually the audit plan is drafted with reference to risk, fraud and emerging Council priorities. The audit plan is developed with Heads of Service & CLT and is considered by the A&G Committee before its adoption. EKAP report on progress against the audit plan quarterly to A&G and present the summary of reports undertaken during the past period which identify the effectiveness of our internal controls and propose recommendations for improvements.</p> <p>There is a potential for override in the processing of accounting journals but there are authorisation processes in place to mitigate this risk.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>8. How do Folkestone and Hythe 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?</p> <p>Have any significant issues been reported?</p>	<p>The Council has policies in place for Anti-Corruption, Fraud Response Plan, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. Additionally there is a behaviours and competency framework which staff are expected to adhere to. All tenders for contracts include a questionnaire which asks bidders to confirm that they comply with F&HDC's minimum ethical standards (e.g. equality and diversity, whistleblowing, modern slavery, etc.). Our contract terms for suppliers also require appointed suppliers to commit to these standards and F&HDC's policies.</p> <p>Training is delivered so staff understand how to report concerns and are assured of confidentiality should they report any issues.</p> <p>Staff are encouraged to contact the relevant officers with any concerns with regard to fraud or corruption.</p> <p>No significant issues have been reported.</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>Directors, Procurement posts and those awarding major contracts, Revenues & Benefits Officers, Corporate Debt Officers, Officers named on the bank mandate and involved in the treasury management process.</p> <p>All staff are required to undertake mandatory training. Segregation of duties and a two step authorisation process is in place for treasury management activities. System messages and alerts for unusual activity.</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>No</p> <p>Councillors and Senior Officers are required to complete annual Related Party Disclosure forms and Managers complete annual Managers Assurance Statements which require disclosure of related party activities.</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 results of the ongoing Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems, and confirm any instances of fraud. In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required.</p> <p>Based on the work undertaken during the year the Head of EKAP has confirmed that the overall assurance for FHDC will be sound and the annual report will be presented to A&G in July.</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>No</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 and Governance Committee, is responsible for ensuring that Maidstone 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 and Governance 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 Folkestone and Hythe Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>During the year various update reports are presented to the Corporate Leadership Team which provide management with confirmation that the laws and regulations have been complied with. Legal provide comments for management and cabinet papers. The annual Managers Assurance Statements specifically asks managers to confirm that laws and regulations have been complied with.</p> <p>All legal officers follow high standards and are trained to identify and deal any issues that may arise. All legal officers regularly attend training courses to ensure that they are up to date with changes in the law.</p> <p>No</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>During the year various update reports are presented to the Audit and Governance Committee and other committees as deemed necessary which provide the relevant committee with confirmation that the laws and regulations have been complied with.</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>The Council are party to a long running group litigation case in respect of VAT, but it is not anticipated to give rise to a risk of material misstatement in the financial statements for 2020/21.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Folkestone and Hythe Council have in place to identify, evaluate and account for litigation or claims?	We do not have policies but each case is reviewed on an individual basis. Each litigation matter is different i.e. housing, planning, or property.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

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

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Folkestone and Hythe Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and the Council whether the Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>EKH was an ALMO shared service operating across the four East Kent Councils including FHDC managing the HRA Housing stock (FHDC owns 25% of EKH Ltd). All four owner Councils took the decision in February 2020 to return their housing services and ultimately cease EKH. The housing management service transferred back to the Council in October 2020 and EKH remains a related party of the Council during 2020/21 and a management fee was paid by FHDC to EKH to operate the service for six months.</p> <p>FHDC is the sole shareholder of Otterpool Park Development Company Ltd whose primary function is to be the second member of Otterpool Park LLP which is the delivery vehicle for the Otterpool Park Garden Town project. The Council owns 99.9% of Otterpool Park LLP. Council Officers support and undertake duties on behalf of Otterpool Park LLP so their time is recharged to them and the Council has made loans to the company.</p>
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A review of the prior year's assessment is undertaken and any changes in circumstances and relationships considered. A review of Council, Cabinet and other Committee reports during the financial year is undertaken to identify any new or changes to existing related parties and group relationships. Whilst Central Government has always been a related party it's worth noting that during 20/21 the value of transactions significantly increased due to the awarding of Covid grants and business grants. Councillors and Senior Officers are required to complete annual Related Party Disclosure forms and Managers complete annual Managers Assurance Statements which require disclosure of related party activities.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Related parties are identified through disclosure forms. Beyond the normal controls there are no specific controls in place to approve and authorise transactions with related parties.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Any such transactions would still be required to follow the same authorisation processes as prescribed in the constitution.</p>

Accounting estimates

Issue

Matters in relation to Related 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?	Where assets and liabilities are based on valuations (e.g. non-current assets, pension liability) or provisions are set aside (e.g. impairment of bad debts, business rates appeals) accounting estimates are made and disclosed in the financial statements.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	The Council's corporate risk register is focussed on strategic risks emerging from the Corporate Plan, MTFS and wider sector. Where relevant these would be highlighted to the finance team so that appropriate changes to the accounting estimates can be made.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Where accounting estimates have been made they are based on the latest data and information available either internally or externally, using professional judgement and external experts are used where appropriate, for example for non-current asset valuations and pension valuations.
4. How do management review the outcomes of previous accounting estimates?	The outcomes of previous accounting estimates are reviewed as part of in-year budget monitoring comparing actual outcomes to estimates and analysing data to identify trends and patterns and if any changes to estimation techniques are required.
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 Finance team ensure they remain up to date with changes to regulations, accounting standards and sector changes and attend relevant training and seminars to fully understand the impact of such changes and in turn consequences for accounting estimates. In addition the council uses specialist advisors where its own team are unable to perform that duty such as the use of valuers for non-current asset valuations and actuary for pension valuations.</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>We utilise internal audit to provide us with control environment reviews, including on areas that accounting estimates exist in, such as business rates and valuations. As a member of the LGPS, the administering body is KCC and we rely on them for the management of the control environment. Contractual arrangements are in place with third parties. Where we utilise third parties for advice, the Council maintains a dialogue with the advisors to satisfy themselves that the estimates are appropriate.</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>Representatives from KCC and Barnett Waddingham regularly attend Kent Finance Officers Group to provide updates on the management of the pension scheme. Arrangements in place with EKAP who are used to monitor control activities of all processes. Use of source data from external parties where appropriate and validating them against previous data and information and discussing approach with neighbouring authorities.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The Committee see the draft accounts in advance of them being asked to adopt them. We would draw their attention to significant changes in accounting estimates. The May meeting of A&G Committee is considering all accounting estimates including the methods and models used and the underlying assumptions.</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)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Finance team use their professional skills and knowledge to arrive at accounting estimates, ensuring that they remain up to date with changes in any areas that may be subject to estimation. Where required the council uses specialist advisors and experts to provide accounting estimates such as the use of valuers for non-current asset valuations and actuary for pension valuations.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	<p>Method</p> <ul style="list-style-type: none"> • Depreciated Replacement Cost (DRC) • Existing Use Value • Existing Use Value - Social Housing (EUV-SH) • Fair Value. <p>Approach</p> <ul style="list-style-type: none"> • All assets revalued at least every 5 years. • Top 20 non-housing assets by value revalued annually as at 31 March (equates to approximately 80% of the net book value of this category of assets). • Surplus Assets revalued annually at 31 March. • HRA Stock – beacon record approach for full revaluation as at 31 March 2021 	<ul style="list-style-type: none"> • Finance have liaised with Property and Housing to ensure property asset list is up to date. • Finance have undertaken comparison between latest and existing valuations and requested explanations of significant variations from valuer. • HRA Dwellings valuations compared to HM Land Registry indexation since the last 5 year revaluation. 	External valuer appointed – For 2020/21 Wilks Head & Eve LLP	<p>Assessment of degree of uncertainty for 2020/21 based on underlying guidance from CIPFA and RICS.</p> <p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recognised in the CIES.</p> <p>An increase in the estimated valuations would result in an increase to the Revaluation Reserve and/or a gain recognised in the CIES</p> <p>The valuations have been undertaken by a RICS qualified external valuer, compliant with the Code requirements and alternative estimates are not considered to be relevant</p>	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?
Heritage Assets	<p>Held at cost if asset is non-operational – Assets not subject to depreciation.</p> <p>If operational then valued as per land and buildings (above)</p>	Purchase price of heritage asset acquired	External valuer – Wilks Head & Eve LLP	<p>Assessment of degree of uncertainty for 2020/21 based on underlying guidance from CIPFA and RICS</p> <p>Only one asset classified as Heritage Asset at 31 March 2021– reasonable certainty value is correct</p> <p>Alternative estimate not applicable for 2020/21.</p>	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?
Investment property valuations	<p>Method - Fair Value (market value that would be paid for asset in its highest and best use). Properties are not depreciated.</p> <p>Approach – annual review of all investment assets as at 31 March</p>	<p>Finance liaise with Property to ensure property asset list is up to date including use of asset and income received where applicable</p> <p>Finance undertake comparison between latest and existing valuations and request explanations of significant variations from valuer.</p>	External valuer – Wilks Head & Eve LLP	<p>Assessment of degree of uncertainty for 2020/21 based on underlying guidance from CIPFA and RICS</p> <p>A reduction in the estimated valuations would result in a loss recognised in the CIES</p> <p>An increase in the estimated valuations would result in a gain recognised in the CIES</p> <p>The valuations have been undertaken by a RICS qualified external valuer, compliant with the Code requirements and alternative estimates are not considered to be relevant</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	<p>Method Useful asset lives basis for different categories of assets.</p> <p>Approach The council uses the CIPFA Asset Register software to calculate the depreciation as this meets the accounting requirements of the Code.</p>	<p>Standard useful lives for categories of assets are used.</p> <p>Useful lives updated when assets are revalued</p> <p>New assets of material value are reviewed to determine which year depreciation should begin</p> <p>Finance undertake checks on information from Asset Register software to ensure depreciation being charged correctly</p>	Useful lives determined through external revaluation process	If the useful life of assets is reduced, the value of depreciation charged increases and the carrying amount of the asset falls.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Valuation undertaken by the actuary for the Kent Pension Fund. Finance review the figures provided against their own knowledge of pension payments made by the authority.	LGPS member data supplied to the actuary by HR	Barnett Waddingham	The estimate of the defined benefit obligation is sensitive to the actuarial assumptions. The financial statements include a sensitivity analysis. The valuations are undertaken by the actuary and alternative estimates are not relevant.	No
Level 2 investments	Valuation and treatment of investments held at 31 March 2021 based on advise from the council's treasury advisor, Arlingclose.	Advice from Arlingclose Finance Team will liaise with Arlingclose over any specific concerns	Arlingclose Ltd Contract awarded following open tender process	The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	No
Level 3 investments	Unlisted Shares Valuation undertaken by Arlingclose based on discounted cash flow forecast for latest business plan and a credit assessment of the organisation.	Business Plan financial information supplied by Finance By discussion with Arlingclose to consider their valuation based on the methodology applied. Finance Team will liaise with Arlingclose over any specific concerns	Arlingclose Ltd	Significant changes in any of the unobservable inputs would result in a materially higher or lower fair value measurement for the financial instruments with the gain or loss being recognised in the CIES The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	Arlingclose have advised they have revised their calculation in 2020/21 for valuing unlisted shares/holdings and this may lead to lower values compared to 2019/20

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?
Fair value estimates	<p>Loans borrowed and made at 31 March 2021 for treasury management purposes and are held on the balance sheet at amortised cost (i.e. the value of the principal outstanding plus accrued interest) in accordance with proper accounting practice.</p> <p>Treasury management investments in pooled funds at 31 March 2021 are held at their market value and calculated by reference to information supplied by Arlingclose</p> <p>Loans made for other purposes are held at fair value calculated by Arlingclose which provides for an expected credit loss adjustment</p>	<p>For loans borrowed the source data is the original value of the loan taken up.</p> <p>For treasury management investments made the source data is either the original value or, in the case of pooled funds, the number of units purchased.</p> <p>For loans made for other purposes the source data is the relevant loan agreement.</p>	<p>Arlingclose Ltd</p> <p>The fair value of investments in pooled funds is independently checked to statements provided by the Fund Managers.</p>	<p>Significant changes in any of the unobservable inputs would result in a materially higher or lower fair value measurement for the financial instruments with the gain or loss being recognised in the CIES</p> <p>The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions (including NNDR appeals)	NNDR Appeals – For 2010 RV list the provision is based on outstanding appeals and the forecast success rate based on past experience. For 2017 RV list the provision is based on the assumption made at national level of potential successful appeals, adjusted to reflect local knowledge. This approach is agreed by all Kent authorities.	VoA lists of current outstanding appeals as at 31 st March	No	NNDR appeals are difficult to forecast and the outcome of appeals and the financial impact on the Council are monitored regularly. Until appeals against the 2017 RV list since the implementation of 'Check, Challenge, Appeal' are assessed by the VoA it is difficult to assess the impact of successful appeals and use past experience. The agreed approach across Kent is thought to be best method of estimation.	No
Accruals	Accruals are recognised where they exceed £5,000.	Purchase orders are GRN'd on the procurement system for goods/serviced received prior to 31 st March. Budget holders are asked to notify Finance of any accruals outside of the procurement system. A review of actuals against the quarter 4 projection is undertaken and payment runs in April are reviewed by the Finance team to identify any potential missing accruals.	No	The level of accruals is low, supporting documentation must be provided and all accruals are reviewed by Finance.	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?
Credit loss and impairment allowances	Expected credit loss (ECL) on loans made is undertaken by Arlingclose. Methodology is discounted cash flow approach coupled with relevant loan default rates to calculate the ECL	Business plan and loan agreement information provided by Finance	Arlingclose Ltd	Finance Team will liaise with Arlingclose over any specific concerns The council uses specialist external advice provided by Arlingclose to calculate the expected credit loss on loans.	Arlingclose have advised they have revised their ECL calculation for 2020/21 which may result in a higher value compared to 2019/20
Finance lease liabilities	None for 2020/21	Not applicable	Not applicable	Not applicable	No



grantthornton.co.uk

© 2021 Grant Thornton UK LLP

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.