

# Informing the audit risk assessment for Folkestone and Hythe District Council 2022/23

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Folkestone and Hythe District Council's external auditors and Folkestone and Hythe District Council's , 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 District 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 Folkestone and Hythe District 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 2022/23?</p>	<p>Russia's invasion of Ukraine and the subsequent impact on e.g. the energy market was a significant event in Feb 2022 just before the financial year 2022/23; it continued to have a lasting impact throughout the financial year. The impact was felt in the macroeconomy which was exacerbated further following the change in Prime Minister (twice) and the September 'mini-budget'. All of this impacted i) inflation and impact on all expenses (energy, labour, materials etc) ii) borrowing costs. There will also be an impact on income from business rates with many businesses / economy still recovering from the COVID-19 pandemic, now exacerbated by the above.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Folkestone and Hythe District 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>The accounting policies are considered to be appropriate for the preparation of financial statements and there are no proposed changes to accounting policies for 2022/23.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Yes. Financial Liabilities:            Money Market Funds (short term borrowing/treasury management)            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:            Investments made for treasury management purposes.            Bank account            Loans made for service purposes, including Oportunitas            Equity investment in Oportunitas            Trade receivables for goods and services delivered</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</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?	No.
6. Are you aware of any guarantee contracts? If so, please provide further details	No.
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
8. Other than in house solicitors, can you provide details of those solicitors utilised by Folkestone and Hythe District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Wilson matters: Becket Chambers – boundary dispute, Adam Solomon – Littleton Chambers (barrister), Mark Davis – Six Pump Court (barrister) Horatio Waller – FTB Chambers (barrister)</p> <p>James Harrison – Six Pump Court – Closure Orders (barrister) Greville Healy - Falcon Chambers – Pumping station advice (barrister)</p> <p>TG Barnes – Consumer Rights Browne Jacobson – Property, SDLT advice and matters relating to the Otterpool development. Buckles – planning matters, complicated s106 agreement Mills &amp; Reeve – planning matters and complicated s106 agreements Knights LLP – Development Bevan Brittan – governance advice T.L.T. – Contract and Procurement Advice</p>

## General Enquiries of Management

Question	Management response
<p>9. Have any of the Folkestone and Hythe District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>No.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Amandeep Khroud is the solicitor to the Council (and Monitoring Officer). Amandeep reports to the Audit and Governance Committee.</p> <p>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. We use other advisors as and when needed in relation to; civil litigation matters; criminal litigation matters; procurement advice; conveyancing if the matter is very complicated or we do not have the in-house capacity to deal with; and Member conduct.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>We calculate an expected credit loss (ECL) for the Council's loan to its housing and regeneration subsidiary company, Oportunitas Limited. In future an ECL calculation will also be required for loans planned to be made to Otterpool Park LLP, a wholly owned subsidiary organisation for the delivery of the Otterpool Park Garden Town development.</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 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 Folkestone and Hythe District 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 Folkestone and Hythe District Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Has Folkestone and Hythe District 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 District 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/low.</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 &amp; 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. On the HRA side, and since the housing service returned in-house, we are starting to explore tenancy fraud (as highlighted in the EKAP fraud training delivered in January 2023).</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Folkestone and Hythe District Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>There have recently been instances of irregularities identified within the Housing department. This matter was subject to separate Internal Audit reviews. Contract management and procurement irregularities were identified following investigation.</p> <p>In addition to the process of fraud reporting through EKAP, the S151 Officer &amp; Monitoring Officer would alert the Chair of the Audit &amp; Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. All significant incidents of fraud identified would subsequently be reported at the next Committee meeting. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&amp;G committee if required.</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>If there was fraud or suspicion of fraud, both the Finance and Governance Portfolio holder and the Chairperson of the Audit and Governance Committee will be alerted and a report will be taken to the next committee meeting.</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 Folkestone and Hythe District 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.</p>
<p>6. What processes do Folkestone and Hythe District 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 &amp; Governance Committee (A&amp;G). EKAP will also undertake follow up audits and report the findings to A&amp;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&amp;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 &amp; 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>7. How do you assess the overall control environment for Folkestone and Hythe District 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)? If so, please provide details</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 &amp; CLT and is considered by the A&amp;G Committee before its adoption. EKAP report on progress against the audit plan quarterly to A&amp;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 (segregation of duties) in place to mitigate this risk.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Folkestone and Hythe District Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</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&amp;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&amp;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>There have been no official whistleblowing events during 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>Directors, Procurement posts and those awarding major contracts, Revenues &amp; 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>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>No. If the Council became aware of related party relationships that could give rise to instances of fraud, this would result in HR, procurement irregularities, etc., investigations.</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>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 results of Internal Control Audits by EKAP are reported quarterly to the Audit &amp; Governance Committee (A&amp;G). EKAP will also undertake follow up audits and report the findings to A&amp;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&amp;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 &amp; Monitoring Officer would alert the Chair of the Audit &amp; Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. All significant incidents of fraud identified would subsequently be reported at the next Committee meeting. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&amp;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 was sound and the annual report was presented to A&amp;G in July.</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.</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 Folkestone and Hythe District 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 Folkestone and Hythe District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the District Council's regulatory environment that may have a significant impact on the District 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 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. These reports include the quarterly and annual EKAP Update reports in addition to the Annual Governance Statement and update reports from Grant Thornton.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>There have recently been instances of irregularities identified within the Housing department. This matter was subject to separate Internal Audit reviews. Contract management and procurement irregularities were identified following investigation.</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>No</p>



## Impact of laws and regulations

Question	Management response
5. What arrangements does Folkestone and Hythe District 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 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

Folkestone and Hythe District 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 Folkestone and Hythe District Council ;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the District 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 District Council, or of any body that is a related party of the District 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 District 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 District Council's 2022/23 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Folkestone and Hythe District Council</li> <li>• whether Folkestone and Hythe District 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 material changes.</p>
<p>2. What controls does Folkestone and Hythe District 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. 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 (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 Folkestone and Hythe District Council will no longer continue?</p>	<p>Management receives Budget Monitoring Reports on a quarterly basis and the Medium Term Financial Strategy and Reserves Policy are reviewed on an annual basis to assess the ability of FHDC to continue into the foreseeable future and provide the statutory services. The Cash Flow forecasts are regularly monitored by the finance team who perform treasury management activities.</p>
<p>2. Are management aware of any factors which may mean for Folkestone and Hythe District 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>No.</p>
<p>3. With regard to the statutory services currently provided by Folkestone and Hythe District Council, does Folkestone and Hythe District 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 Folkestone and Hythe District Council to cease to exist?</p>	<p>FHDC is not aware of any factors that will not allow it to deliver the statutory services currently provided by the Council.</p>
<p>4. Are management satisfied that the financial reporting framework permits Folkestone and Hythe District 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</p>	<p>Management is satisfied that the Council will continue to operate for the foreseeable future.</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?	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. See also Management's response to accounting estimates WP.
2. How does the District Council's risk management process identify and address 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. See also Management's response to accounting estimates WP.
3. How does 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. See also Management's response to accounting estimates WP.
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 2022/23 and, if so, what was the reason for these?	No

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does 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. See also Management's response to accounting estimates WP.</p>
<p>7. How does the District Council 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 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 does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>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"> <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 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.</p>



## 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?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The methods and models used for calculating accounting estimates are compliant with the Code and the council uses the expertise of external consultants where required.
12. How is the Audit 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. The finance team will apply professional judgement, where relevant, to the advice received.

## 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	<p>Valuation undertaken by the actuary for the Kent Pension Fund.</p> <p>Finance review the figures provided against their own knowledge of pension payments made by the authority</p>	LGPS member data supplied to the actuary by HR	Barnett Waddingham	<p>The estimate of the defined benefit obligation is sensitive to the actuarial assumptions. The financial statements include a sensitivity analysis.</p> <p>The valuations are undertaken by the actuary and alternative estimates are not relevant.</p>	No
Level 2 investments	Valuation and treatment of investments held at 31 March 2022 based on advise from the council's treasury advisor, Arlingclose.	<p>Advice from Arlingclose</p> <p>Finance Team will liaise with Arlingclose over any specific concerns</p>	<p>Arlingclose Ltd</p> <p>Contract awarded following open tender process</p>	The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	No
Level 3 investments	<p>Unlisted Shares</p> <p>Valuation undertaken by Arlingclose based on discounted cash flow forecast for latest business plan and a credit assessment of the organisation.</p>	<p>Business Plan financial information supplied by Finance</p> <p>By discussion with Arlingclose to consider their valuation based on the methodology applied.</p> <p>Finance Team will liaise with Arlingclose over any specific concerns</p>	Arlingclose Ltd	<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</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?
Fair value estimates	<p>Loans borrowed and made at 31 March 2023 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 2023 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 <sup>st</sup> March	No	<p>NNDR appeals are difficult to forecast and the outcome of appeals and the financial impact on the Council are monitored regularly.</p> <p>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.</p>	No
Accruals	Accruals are recognised where they exceed £5,000	<p>Purchase orders are GRN'd on the procurement system for goods/serviced received prior to 31<sup>st</sup> March.</p> <p>Budget holders are asked to notify Finance of any accruals outside of the procurement system.</p>	No	All accruals are reviewed by Finance.	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?
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.	No
Finance lease liabilities	None for 2022/23	N/A	N/A	N/A	N/A

## 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?
PFI liabilities	None for 2022/23	N/A	N/A	N/A	N/A
Land and buildings valuations	<p>Method</p> <ul style="list-style-type: none"> <li>• Depreciated Replacement Cost (DRC)</li> <li>• Existing Use Value</li> <li>• Existing Use Value - Social Housing (EUV-SH)</li> <li>• Fair Value.</li> </ul> <p>Approach</p> <ul style="list-style-type: none"> <li>• All assets revalued at least every 5 years.</li> <li>• 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)</li> </ul>	<ul style="list-style-type: none"> <li>• Finance have liaised with Property and Housing to ensure property asset list is up to date.</li> <li>• Finance have undertaken comparison between latest and existing valuations and requested explanations of significant variations from valuer.</li> <li>• HRA Dwellings valuations</li> </ul>	External valuer appointed – For 2022/23 Wilks Head & Eve LLP	<p>Assessment of degree of uncertainty for 2022/23 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 2022//23 based on underlying guidance from CIPFA and RICS</p> <p>Only one asset classified as Heritage Asset at 31 March 2023 – reasonable comfort value is correct</p> <p>Alternative estimate not applicable for 2022/23.</p>	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?
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 2021/22 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</p>	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	<p><b>Method</b> Useful asset lives basis for different categories of assets.</p> <p><b>Approach</b> 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



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