



Informing the audit risk assessment for Tewkesbury Borough Council 2020/21

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Purpose

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

Background

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

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

Communication

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

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from the 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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	COVID-19 and Brexit will have a major impact on the financial statements for 2020/21 affecting asset values, impairment levels and many other areas of the financial statements.
2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies have been reviewed and are being taken to Audit Committee on 24 March 2021 for approval. We don't feel that any of the accounting policies needed amending and are fit for purpose however we will keep these under review during the year end process.
3. Is there any use of financial instruments, including derivatives?	We have standard investments (principal plus interest), money market funds and other pooled investments.
4. Are you aware of any significant transactions outside the normal course of business?	Material transactions outside the normal course of business: Ashchurch Bridge project- £8.5m COVID-19 Business Grants Purchase of two new Investment Properties (Tipton and Volvo)

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?	Golf Course – end of current lease at 31/03/21 and negotiating a new lease (not yet signed) Car Parks – income reduced which affects the valuation Offices – lost tenants which may affect valuation
6. Are you aware of any guarantee contracts?	One Legal confirm that we have no guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None that we are aware of.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The main ones we are aware of: Womble Bond Dickenson – purchase of investment properties Pinsent Mason – Garden Towns advice Roythornes Ltd – Ashchurch Bridge project Mischon de Reya – VAT advice
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not that we are aware of.

General Enquiries of Management

Question	Management response
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>The main ones we use are:</p> <ul style="list-style-type: none">Lambert, Smith, Hampton have been used as professional advisers on the purchase of commercial propertyColin Molton Consultancy Ltd – Strategic advice on Tewkesbury Garden Town and West CheltenhamMike Brain – advising on decarbonisationSable Leigh Consultancy Ltd – Junction 9 projectMace Ltd – Tewkesbury regeneration projectArlingclose – new investment opportunitiesAPSE – commercial waste business case

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 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 the 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 the Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have the 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 has a robust financial control framework, supported by financial regulations, standing orders, scheme of delegation and an independent and objective Internal Audit function and Counter Fraud Unit. Responsibility for ensuring that fraud and corruption risks are addressed sits with the Chief Finance Officer. The Internal Audit plan includes risk based audits of the core financial systems that are used in the compilation of the financial statements. These core systems are audited any risks that are identified that may result in the financial statements being materially mis-stated due to fraud will be reported to the Council's Management Team and the Audit and Governance Committee as part of the quarterly reporting cycle.</p> <p>The finance team comprises skilled, qualified accounting officers responsible for regular monitoring of management accounts to report actual income and expenditure against budgeted and forecast performance. This process includes discussions with service leads and review of variances to identify any instances of fraud and error. The annual budget is risk assessed and reported, and then monitored as part of the revenue and capital budget monitoring process. All reports to Executive Committee include a section on financial implication and risk assessment to ensure that members are aware of the financial risks of making a decision.</p> <p>The Counter Fraud and Anti-Corruption Policy, the Corporate Enforcement Policy, the Whistleblowing Policy, and the Internal Audit Charter are formally agreed by the Council (at a meeting of the appropriate Committee/Executive). These documents set out the role of Internal Audit in the prevention and investigation of fraud.</p> <p>The Audit and Governance Committee also approves the annual audit plan and counter fraud plan which includes allocation of resources to respond to fraud allegations and prepare audits to consider possible areas where fraud may be a risk.</p>

Fraud risk assessment

Commercial in confidence

Question	Management response
<p>1. Have the 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>(Continued)</p>	<p>The work of the Counter Fraud Team is reported to the Audit and Governance Committee on a biannual basis. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations. The team can undertake reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas. Internal investigations have taken place by the Counter Fraud Unit and appropriate action has been taken and reported where appropriate. Where an investigation takes place due to the suspicion of fraud, any areas of risk or poor control that are identified will also be reported to the appropriate manager with remedial recommendations. Internal Audit will include a follow up audit in the Audit Plan to ensure the recommendations have been implemented. The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds.</p> <p>The risk registers contain information to identify possible contingent assets/liabilities and/or requirements to include provisions. The data in the register is used to identify cost or resource pressures or income streams. The information can be used to inform the financial planning process.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Revenue – streams such as Council Tax, Business Rates and any rental income</p> <p>Grants / Benefits – Business Grants, Council Tax Reduction Scheme (and Housing Benefit), Track and Trace Support Payments</p> <p>Expenditure – procurement and contract management</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 the Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Any instances of actual, suspected or alleged fraud, error or other irregularities that are identified are reported to Corporate Management and the Audit and Governance Committee.</p> <p>Benefit fraud is dealt with by the DWP. Abuse of the Council Tax Reduction Scheme is supported by the Revenues and Benefits Team.</p> <p>The Counter Fraud team investigate allegations of wrongdoing. These matters are managed in line with Council's policies, including disciplinary policy, and will be reported to the police where appropriate.</p> <p>In some instances recommendations will be made in respect of control procedures and reports are issued to the appropriate Service Leads and Governance Group.</p> <p>The Audit and Governance Committee approves the Annual Audit Plan which will include financial systems and areas of risk.</p> <p>The Counter Fraud team has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit and Governance Committee.</p> <p>The Council's Overview and Scrutiny Committee also receives the Council's performance reports, which includes risk registers and financial performance.</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>The main areas of abuse relate to fraud associated with benefits to include the Councils Council Tax Reduction Scheme although reviews and verification processes within the department keep this to a minimum. In addition abuse relating to Council Tax and Business Rates avoidance / evasion affects a main revenue stream and due to the pandemic, abuse of Business Grants is a significant fraud risk area. Some high risk areas are no longer within the domain of the Council - depot services are managed by Ubico, leisure matters are contracted out and the Council does not retain housing stock therefore Tenancy Fraud is not a concern although Housing Application abuse remains an area that requires monitoring. There are low risk internal areas such as mileage expense abuse but this is not significant due to the pandemic. Recruitment and payroll are also areas which are open to abuse. Procurement fraud, specifically within property services departments, remains an area susceptible to abuse because of the significantly high levels of expenditure. Regarding external fraud, both Internal Audit and the Counter Fraud Unit have undertaken work around serious and organised crime and continue to promote awareness and tackle any areas affecting Tewkesbury Borough.</p> <p>Cyber related crime remains a significant risk for the Council and this is managed and reported on by the ICT Team.</p> <p>It cannot be stated that fraud will not occur, but I would not consider one area being significantly at risk. I would add that there is a current increased risk of fraud across the Council due to the pandemic, especially with the payment of NNDR and Community Grant payments.</p>

Fraud risk assessment

Question	Management response
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>The existence of the Counter Fraud Unit as a permanent dedicated service significantly mitigates fraud risk generally. The overall remit is to prevent, detect and deter the abuse of public funds within the Council by working closely with other public sector organisations and referring to recommendations by the Home Office and other professional bodies. The team undertakes reactive investigation work where a referral is received and where necessary, proactive fraud drives in high risk areas.</p> <p>The Counter Fraud Unit have promoted and introduced processes for internal and external reporting for both staff and by members of the public. Whistleblowing is becoming more effective as a result.</p> <p>There are many financial controls around the validity and payment of invoices and HR re recruitment controls to ensure all new employees are vetted properly and that staff recognise fraudulent qualifications</p> <p>Work is developing in relation to gifts and hospitality procedures and conflicts / declarations of interest by staff.</p> <p>The CFU assist with NFI data matching and undertake our own data matching exercises where risk has been identified.</p> <p>The Council also employs a number of Enforcement Officers within the various service areas who undertake work to tackle abuse of public funds</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the 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's internal audit service provide an audit opinion using findings from review work carried out across the Council services. As part of the audit of systems, appropriate internal controls (or their absence/non-compliance) is considered by internal audit. Appropriate testing by internal audit, enables advice to be produced on the effectiveness of internal controls. The outcome of internal audit reviews are reported to management through audit reports and to the Audit and Governance Committee. There is a good working relationship between the Counter Fraud Unit and Internal Audit, which ensures that internal control weaknesses identified through CFU reviews are followed up, following management action to address the weaknesses by internal audit reviews.</p> <p>Audit and Governance Committee has a monitoring and challenge role to ensure the system of internal control is robust.</p> <p>External Audit also report their findings and recommendations to Audit and Governance Committee, which is subject to the same process of monitoring and challenge. The outcome of internal and external audit work, together with Assurance Statements prepared by senior managers feed into the preparation of the Annual Governance Statement which is considered by Council's Management Team and the Audit and Governance Committee. Internal Audit provides assurance on the robustness of the arrangements for production of the AGS.</p> <p>In summary, internal controls work effectively, including segregation of duties.</p> <p>The Counter Fraud team submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. On occasions such issues have been raised by both internal and external audit as part of the audit work. Appropriate recommendations for changes to internal controls are made on these occasions for management to implement.</p>

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	<p>The financial reporting process is subject to review and challenge by Finance Leads. There is always the potential but we believe appropriate checks and balances are in place to ensure mis-reporting does not occur.</p>
<p>8. How do the 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 communicates and encourages ethical behaviour and business processes of its staff and contractor through its policies and strategies including the Counter Fraud and Anti-Corruption Policy, Employee Code of Conduct and Whistleblowing policy all of which are available on the intranet site. Updates are communicated through induction and refresher training and other channels or staff training events.</p> <p>The Audit and Committee approves the risk-based annual audit plan. The annual plan includes a review of various policies and strategies such as: the Counter Fraud and Anti-Corruption Policy, Employee Code of Conduct and Whistle-Blowing Strategy. The various strategies will be reviewed for timeliness and completeness as well as how well they are communicated to employees through processes such as induction training, appraisals and refresher training. Any areas of concern are reported to the Audit and Governance Committee through Internal Audit updates.</p> <p>In terms of contractors, significant contracts are let following a robust process which seeks assurance from the potential contractor that the organisation has appropriate policies and processes in place. The Council monitors performance and quality and adherence to standards of service delivery. The Procurement Officers have included statements on all tender / quote documentation detailing the Councils approach to modern slavery, ethical procurement and supporting local businesses</p> <p>The Counter Fraud Team remit includes staff and member awareness sessions and alerts where necessary to encourage reporting which is further complemented by the Whistle-Blowing Policy. Training and briefings are provided by the Counter Fraud Unit to highlight activity and their role. Publicity with regard to identified fraud and error will also be encouraged to act as a deterrent.</p> <p>No significant issues have been reported in 2020/21. Staff are expected to report any concerns they have about fraud or the misuse of public funds. Any allegations received are referred to the Counter Fraud Unit for investigation. These matters are managed in line with the Council policies, including disciplinary policy, and will be reported to the Council's Management Team where appropriate. In some instances, recommendations will be made in respect of control processes.</p>

Fraud risk assessment

Question	Management response
<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>Contract procurement posts, high level budget controllers/approvers, ICT staff with high level system access, Marketing Teams. Officers with significant operational financial responsibilities, such as roles in Treasury Management, Chief Finance Officer/Deputy Finance Officer, and roles in Revenues and Benefits are subject to regular security checks, at recruitment and then regularly every three years. Each role in the Council is assessed for the requirement to undertake post holder security checks. Many Local Government staff are susceptible to duress and corruption due to the nature of their duties - housing teams, CTAX officers, Planning staff however there must be a level of trust within the organisation to promote a healthy working environment.</p> <p>Conflict of interest / declaration of interest process development to make it a more risk based one - identifying high risk staff and ensuring the correct controls are in place.</p> <p>Better recruitment checks to vet staff and prevent them entering the workplace - prevention is always the best control.</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>Organisations such as Ubico give rise to fraud risk which may affect the Council.</p> <p>The risks associated with fraud related to third party relationships and transactions are mitigated through the requirement within the Constitution for members to make declarations of all relevant relationships and transactions and update their declarations on a quarterly basis. They are also required to disclose any relevant interests at Committee meetings and where appropriate withdraw and disclose any gifts and/or hospitality received via the Council register. Officers are also required to declare any related party transactions.</p> <p>Prevention methods for bribery and corruptions are detailed within the Counter Fraud and Anti Corruption Policy.</p> <p>See our year end note for annual declarations made by councilors and senior officers.</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 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>On a quarterly basis, the Audit and Governance Committee receives reports from Internal Audit regarding work carried out by team. The report details the work carried out compared to the plan, the level of assurance resulting from the audit, the key issues regarding internal controls or fraud including any breaches. Reporting includes the outcome of internal audit follow-up reviews of the implementation of audit recommendations.</p> <p>In addition, the Counter Fraud Team report biannually to Committee.</p> <p>The Audit and Governance Committee approves the Annual Audit Plan which includes a risk based approach to planning.</p> <p>The Counter Fraud Unit has a similar annual plan for its work which includes an allocation of resources to investigate any alleged fraud. Performance against the Internal Audit Plan and Counter Fraud Plan and any specific issues identified are reported quarterly/half yearly to the Audit and Governance Committee.</p> <p>The Committee is consulted on any proposed changes to relevant Council Policy – e.g. Whistle Blowing Policy, Counter Fraud and Anti-Corruption Policy, Money Laundering Policy, RIPA Policies etc. Changes to the Council's Corporate Risk Register are also reported to the Audit and Governance Committee on a quarterly basis.</p> <p>See reports presented to Audit and Governance / Overview and Scrutiny Committee.</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>Reports from whistle blowers are investigated by the Counter Fraud Team. Once the investigation is complete, appropriate recommendations are made for action which may include prosecution, civil penalties, improvements to internal controls, and (where an employee is the subject), consideration of disciplinary action.</p> <p>There have been no whistle blowing reports of fraud during the year as confirmed by the HR and OD Manager. Where there are reports, appropriate action would be taken, and if warranted a report would be made to the Audit and Governance Committee and recommendations for improvements to internal controls issued to Management Team to be followed up by internal audit.</p>

Fraud risk assessment

Question	Management response
13. Have any reports been made under the Bribery Act?	None that we are aware of.

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 Committee, is responsible for ensuring that the 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 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 the Council have in place to prevent and detect non-compliance with laws and regulations? 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>Role of statutory officers to ensure competent staff and all laws complied with.</p> <p>Access to legal service, access to professional advisers etc.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>By exception – would be reported by the statutory officers</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>Not that we are aware of.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None we are aware of and this has been confirmed by One Legal.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>Any instances of litigation or claims are brought up at Management Team so the Head of Finance and Assets is aware from the start and reports these to the Finance Manager at weekly meetings. These are then assessed and further information from the relevant department is requested.</p> <p>Insurance – all managers are aware that at any risk of litigation or a claim must be reported to the Insurance Officer as soon as possible.</p>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None that we are aware of.

Related Parties

Issue

Matters in relation to Related Parties

The 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 the 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 the Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and 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>We have asked all councillors and senior managers to complete a related parties form so please see note when completed.</p>
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Annual return at year end for the accounts, members must keep their register of interests up to date with Democratic Services and declare any interests in committee items at the start of any meetings.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Members declare declarations of interests and reliant on staff (ask at year end)</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Significant transactions outside the normal course of business requires member approval. Financial sign off limits dependent on level within authority. The Corporate Leadership Team sign off approval for anything that does not require member approval.</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 Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The main classes are property, plant and equipment valuation and pension fund net liability valuation.
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	These are scrutinized every year by the accountancy team and mitigations for these risks are sought.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>We always use professional valuers and get all our assets valued annually to ensure that they are carried at fair value. We instruct our valuers by ensuring we have all the up to date information on assets passed to them to ensure the data is as accurate as possible.</p> <p>With the pension funds we complete an annual return to the actuary to ensure they have the most up to date information possible to value our element of the pension fund.</p> <p>We review all the asset values to ensure we understand the estimation techniques involved and challenge any we are unsure of. Also we read the accompanying information from both the property valuers and actuary to understand the estimation techniques involved in the valuation to ensure we are comfortable with them.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	When we look at the estimates for the current year we assess those we used the previous years to ensure they were justified and robust.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	None we are currently aware of.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	We identify the high value and high risk transactions in our accounts and look at our skill sets in house. If we do not have the expertise in house we ensure we use a qualified and competent professional, e.g. RUCS qualified valuers etc.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Controls include clear instructions to experts on scope of work, checking information used in final reports matches what we have given them and thoroughly reviewing reports, issuing challenges where necessary.

Accounting Estimates - General Enquiries of Management

Question	Management response
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?	We document and review any challenge provided or evidence required for our material accounting estimates. For external experts like our actuary and valuers we provide the base data along with any other relevant information they would require then we review the final data and challenge/justify and estimates used to ensure they are robust and verified.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	The nature and extent of the oversight in relation to accounting estimates includes: <ul style="list-style-type: none"> • The agreement of assumptions in advance, including their appropriateness • Verification of the underlying data in advance • The methodology to be used to determine the value of estimates and its appropriateness • Review of the results for reasonableness, including comparative analysis with previous years • Sensitivity of the results to the key assumptions to assess materiality
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)?	COVID-19 and Brexit may affect investment and asset values.

Accounting Estimates - General Enquiries of Management

Question	Management response
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	We believe they are.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Significant accounting estimates and judgements are detailed in a note within the accounts that the committee approve. We also hold a training session prior to the approval of the accounts where issues such as these are discussed and challenges are made by councillors.

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 including Investment Properties	We issue an instruction letter to our valuers with a spreadsheet detailing information such as leases, car park income and any other information needed for the valuers to formally value the asset.	All data submissions received from our expert valuers is reviewed and assessed against data provided to ensure accuracy, completeness and reasonableness. We obtain a valuation certificate and report on their results underlying the basis, assumptions and estimates used in the financial statements upon which we rely.	For PPE we use Wilks, Head and Eve who are RICS qualified valuers.	The valuers issue a formal certificate which includes a summary of any estimation uncertainty.	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	The methods and model are agreed with the independent valuers and then checked to ensure they comply with the code.	We obtain a valuation certificate and report on the valuers results underlying the basis, assumptions and estimates used in the financial statements upon which we rely. We review and challenge where necessary to ensure their assumptions are reasonable.	We use the remaining economic useful life from Wilks, Head and Eve reports and some are our judgement.	We use the estimated useful economic lives as per the valuer and refer to their report for any levels of estimation or uncertainty.	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	We commission the Gloucestershire Pension Fund actuary to undertake this work on our behalf, in accordance with the Code and accounting standards	<p>The engagement letter we sign prior to the work being carried out sets out the scope and methodology used. Also, the actuaries are experts in their field however we do get a briefing note on assumptions then we pay for an additional summary paper for our results which we then review.</p> <p>We also review the estimates used when we receive the final report.</p>	Yes – Gloucestershire LGPS instruct Hymans Robertson (actuary)	We rely on the expertise of the actuary who produce a report on Tewkesbury's results which we review for reasonableness and a sensitivity analysis is provided by the actuary as well to assess the likelihood the estimates may be wrong.	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?
Financial Instruments	All models for valuations for financial instruments are reviewed annually. We use expert advice where needed however we also rely on the in house knowledge of the relevant officers, e.g. Treasury Officer for investments.	We use specialist Treasury Advisers who provide us with the fair value of our investments and borrowings, assessment of credit losses and an analysis of any risks surrounding our financial instruments.	Arlingclose provide all the information for valuing treasury investments.	Sensitivity analysis is undertaken on material valuations where there is some degree of uncertainty.	

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	Finance work with expert officers or advisers to assess whether something is a provision and how to calculate the value	The accountants will review previous estimates to assess how accurate they were and also use experts where necessary to ensure calculations are reasonable.	The accountants will work with specialists in calculating any provisions, e.g. planning solicitors about costs of appeals etc.	We are advised by appropriate qualified and experienced officers as part of the review of material provisions during closedown. This includes the consideration of the sensitivity of the estimate to the methods and assumptions used and whether an estimate is sufficiently material for disclosure in the financial statements	Yes – business rates appeals have been assessed using different data.
Accruals	Various finance staff will ensure that the design, methods and models used in assessing accounting estimates of accruals are sound.	We monitor the operation of control activities by having clear annual review processes in place in respect of assessing accruals as part of the closedown process and ensuring senior finance staff review the basis, method and calculations.	No	Experienced finance staff review the assumptions and methodology used. This includes assessing the estimation uncertainty	No



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