



Informing the audit risk assessment for BCP Council 2020/21

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Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The overriding issue that will have a significant impact on the 2020/21 financial statements is the Covid-19 pandemic. The main impacts will be:</p> <ul style="list-style-type: none"> • Service pressures of £39.3 million, including £24.1 million within regeneration & economy relating to lost income and support to leisure providers. • Receipt of significant funding to distribute to the community on both an agency and principal basis, eg £124 million business support grants distributed. • Receipt of £29 million un-ringfenced government emergency Covid-19 funding and £14 million compensation grant for lost sales, fess and charges • Receipt of £34 million ring fenced government funding to manage the pandemic, eg Contain Outbreak Management Fund and Infection Control Grant. • Effect of £86 million retail and hospitality relief on the NDR collection fund deficit. • Payment of £2.5 million council tax hardship fund between the general fund and collection fund • Increased cost of localised council tax support scheme on the collection fund deficit and reduced collection rates. • Effect of reduced collection rates for NDR and CT on the bad debt provisions • Effect on asset valuations, particularly investment assets valued through income streams. • Effect on the valuation of pension fund asset and liability valuations due to impact on mortality assumptions. • Effect on reserves as collection fund S31 grants relating to the in year deficits and other unspent grant funding is carried forward to 2021/22

General Enquiries of Management

Question	Management response
2. Have you considered the appropriateness of the accounting policies adopted by BCP Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	BCP accounting policies have been reviewed for appropriateness. The policies were reviewed in detail for 2019/20 as the year that BCP Council came into existence. No changes to accounting policies have been required for 2020/21.
3. Is there any use of financial instruments, including derivatives?	<p>The financial accounts show that the council makes use of local authority typical financial instruments which includes debtor and creditor balances, investments and long term borrowing.</p> <p>The council does not use any derivative style instruments as these are not a legal option for local authorities.</p>
4. Are you aware of any significant transaction outside the normal course of business?	No, other than the transactions relating to Covid-19 as detailed in Question 1.

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?	<p>Potential effect of Covid-19 creating uncertainty regarding property asset valuations.</p> <p>However confirmation from the valuers has now cited this as no longer being an issue so there is no additional disclosure in the financial statements reflecting this material valuation uncertainty.</p>
6. Are you aware of any guarantee contracts?	<p>As part of the financial package to support BH Live through the pandemic BCP Council guaranteed an element of their loan under the Coronavirus Business Interruption Scheme.</p>
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	<p>The financial accounts notes detail contingent liabilities.</p> <p>The accounts include a provision for NNDR Appeals.</p> <p>The insurance provision provides a degree of cover for incidents which have occurred but are not yet notified to the Council.</p>
8. Other than in house solicitors, can you provide details of those solicitors utilised by BCP Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>A list of the invoices processed by legal services and which relate to commissioned legal services has been sent to the external auditors.</p> <p>Not all of the work instructed out is contentious – some relates to projects where legal services don't have the specialism or capacity or independence to deal with a matter in-house. The majority of the barristers on the list are engaged on business as usual work, e.g. lengthy child protection final hearings. The list may be longer than usual due to issues with capacity in the team.</p>

General Enquiries of Management

Question	Management response
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?	No reports from Service Providers (see below Q3 Fraud Assessment for general details of known fraud).
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Treasury Management Advisors – Link Asset Services</p> <p>Insurance advisors – Marsh Ltd</p> <p>CIPFA\Grant Thornton – CFO Insights Toolkit</p> <p>LPFG Ltd – capital financing implications of property transfer to subsidiaries</p>

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>1. Has BCP 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>A Counter Theft, Fraud and Corruption Policy (which contains specific Whistleblowing, Anti-Money Laundering, Bribery Act, Fraud Response Plan and Schools guidance) is in place.</p> <p>Risk Management Strategy/Fraud Risk Register are in place.</p> <p>Internal Audit produce an annual counter-fraud & corruption risk assessment and corresponding work programme</p> <p>An annual counter fraud report is presented to the Audit & Governance Committee.</p> <p>Specialist investigative resource to support management with certain aspects of external fraud to the council is provided through the Corporate Fraud Specialist.</p> <p>Internal Audit are part of a number of counter fraud networks through which the council becomes aware of and responds to new and emerging risks.</p> <p>All allegations are reported to the Chief Internal Auditor and Chief Finance Officer (as required under Financial Regulations) and appropriate investigations carried out.</p> <p>The council promptly investigates potential cases of fraud or corruption using suitably trained and skilled staff or passes cases to appropriate parties e.g. Police/DWP.</p> <p>The annual counter fraud report to the Audit & Governance Committee (scheduled October 2021) details the outcomes. In summary every instance of fraud or financial irregularity is thoroughly investigated, which includes passing to the Police for criminal investigation if appropriate.</p> <p>The risk of material misstatement in the financial statements due to fraud is considered low.</p>

Fraud risk assessment

Question	Management response
1. Continued.	<p>Risk management is in active use in all service areas and is used as a management tool for the prioritisation of limited resources.</p> <p>All decision reports requesting councillor approval require risk management implications to be stated.</p> <p>The risk registers include financial risks and mitigating controls.</p> <p>Clear communication to senior officers that their role is to ensure councillors are aware of the facts and associated risks for any decision, and for councillors to make the decision.</p> <p>Corporate Risk Register update quarterly to Audit & Governance Committee.</p>
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>The Internal Audit fraud risk assessment identifies service areas most at risk to fraud. Annual audit plan is informed using this risk assessment.</p> <p>As part of the 2020/21 Audit Plan the following high-level fraud risk areas are planned to be reviewed this year; employee subsistence and travel claims, pcards/credit cards, declaration of interests, planning applications, concessionary travel passes, crisis payments and housing tenancy data matching. The plan includes 160 days counter fraud and 125 days corporate fraud.</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 BCP 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>Some instances of actual and alleged fraud or irregularity. Annual report to Audit & Governance Committee in October will detail all cases for 2020/21, draft list sent separately to Grant Thornton..</p> <p>Management Team review the Corporate Risk Register on a regular basis prior to onward quarterly reporting to Audit & Governance Committee.</p> <p>An annual report on the instances of reported Whistleblowing and fraud incidents is reviewed by the Audit & Governance Committee.</p> <p>All Council reports have a risk implications section.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>As part of the 2020/21 Audit Plan the following high-level fraud risk areas are planned to be reviewed this year; employee subsistence and travel claims, pcards/credit cards, declaration of interests, planning applications, concessionary travel passes, crisis payments and housing tenancy data matching. The plan includes 160 days counter fraud and 125 days corporate fraud.</p> <p>A new fraud risk area identified during 2020/21 has been the fraudulent application for Government Covid-19 grants. Controls were put in place to manage this risk however in five instances, ranging from £4k-£25k, fraud or error occurred resulting in wrongful payment. In two instances grants are fully repaid, a further one is subject to a repayment agreement and final two are being led by NATIS as they are of a national scale. Areas at risk of fraud have adequate internal controls and these are reviewed regularly during internal audit reviews.</p>

Fraud risk assessment

Question	Management response
<p>5. What processes do BCP Council have in place to identify and respond to risks of fraud?</p>	<p>A Counter Theft, Fraud and Corruption Policy (which contains specific Whistleblowing, Anti-Money Laundering, Bribery Act, Fraud Response Plan and Schools guidance) is in place.</p> <p>Risk Management Strategy/Fraud Risk Register are in place.</p> <p>Internal Audit produce an annual counter-fraud & corruption risk assessment and corresponding work programme</p> <p>An annual counter fraud report is presented to the Audit & Governance Committee.</p> <p>Specialist investigative resource to support management with certain aspects of external fraud to the council is provided through the Corporate Fraud Specialist.</p> <p>Internal Audit are part of a number of counter fraud networks through which the council becomes aware of and responds to new and emerging risks.</p> <p>All allegations are reported to the Chief Internal Auditor and Chief Finance Officer (as required under Financial Regulations) and appropriate investigations carried out.</p> <p>The council promptly investigates all potential cases of fraud or corruption using suitably trained and skilled staff or passes cases to appropriate parties e.g. Police/DWP.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for BCP 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>Internal Audit review the effectiveness of internal control in the council through delivery of the approved Audit Plan. The Chief Internal Auditor's annual report to the Audit Committee provides assurance on the effectiveness of the Internal Audit function. The July 21 report will state:</p> <ul style="list-style-type: none"> arrangements were in place to ensure an adequate and effective internal control environment and that where weaknesses were identified there was an appropriate action plan in place to address them; the systems and internal control arrangements were effective and that agreed policies and regulations were complied with; adequate arrangements were in place to deter and detect fraud; there was an appropriate and effective risk management framework; managers were aware of the importance of maintaining internal controls and accepted recommendations made by Internal Audit to improve controls; <p>Other controls to prevent, deter or detect fraud are included in response to question 1 above.</p> <p>No known areas for override of controls or inappropriate influence over the financial reporting process.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No known misreporting areas.</p>

Fraud risk assessment

Question	Management response
<p>8. How does BCP 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>Employees made aware of these through the induction process, Employee Code of Conduct, the Constitution (in particular Financial Regulations) and the Anti Fraud and Corruption Policy.</p> <p>A specific fraud awareness e-learning module has been set up and provided to all employees and is part of the Council's induction process.</p> <p>Staff are encouraged to report concerns through the Anti Fraud & Corruption Policy and also the BCP Whistleblowing Policy. Both are subject to annual evolution and policy communication reminders.</p> <p>One formal whistleblowing referral made during 2020/2021, further details available. Some other referrals of suspected theft\fraud made. Annual report to Audit & Governance Committee in October will detail all cases for previous year</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High fraud & corruption risk posts are considered those posts that have access to financial systems\processes that could enable a fraudulent payment to be made or income to be personally retained if controls are overridden e.g. Treasury Management , Creditors, Debtors, Income collection.</p> <p>Officers engaged in procurement of works, goods or services are also considered higher risk posts from a fraud or corruption perspective. Controls include segregation, panel evaluation and involvement of the Strategic Procurement team in all procurement greater than £25,000.</p> <p>All Senior officers at Tier 4 and above have a up-to-date Declaration of Interest, gift and hospitality Form2 logged with the Monitoring Officer.</p>

Fraud risk assessment

Question	Management response
9. Continued.	Annual audits of key financial systems consider the key controls which include this risk of fraudulent activity.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No known related party relationships or transactions that could give rise to instances of fraud Formal governance arrangements are in place for each partnership\organisation including boards and formal agreements and documented roles/responsibilities.

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal Audit produce an annual counter-fraud & corruption risk assessment and corresponding work programme.</p> <p>Any significant investigations are reported to the Chair of the Audit Committee on an ad hoc basis</p> <p>An annual counter fraud report is presented to the Audit & Governance Committee.</p> <p>The annual counter fraud report to the Audit & Governance Committee (schedule October 2021) details the outcomes.</p> <p>A list of audit investigations has been sent to the external auditor.</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>Annual report to Audit & Governance Committee on counter fraud work includes outcomes of any whistleblowing referrals. The Internal Audit response to investigations (including those raised formally under the Council's Whistleblowing Policy) is included in confidential Appendix.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No reports under the Bribery Act during 2020/21</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that BCP Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements do BCP 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>All reports for decision have a section considering legal implications.</p> <p>All reports for Cabinet / Council decision require sign off from the Monitoring Officer.</p> <p>Senior officers have sufficient knowledge and experience to ensure compliance with laws and regulations within their service areas.</p> <p>There are no changes to the council's regulatory environment that may have a significant impact on the council's financial statements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit & Governance Committee gains assurance that all relevant laws and regulations have been complied with, through the work of Internal Audit, the Annual Audit and Inspection letter from External Audit and the Council's Annual Governance Statement.</p> <p>Other processes in place to ensure compliance include Monitoring Officer/Chief Finance Officer roles/responsibilities and Legal comments on committee reports.</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>There are no known significant non-compliance of laws/regulations that would have any material effect on the 2020/21 Financial Statements.</p>

Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	<p>The specific details of potential claims have been sent to the external auditors.</p> <p>There have been a number of disrepair claims brought against the council in recent months, although each claim is well below the £600k threshold deemed “trivial” to the financial statements.</p> <p>The council has a number of ordinary residence funding disputes between authorities over who pays for care for a service user. There is one at the moment which may be high value (as the service user is in a 52 week placement). An additional £0.6 million added to provision as at 31 March 2021.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does BCP Council have in place to identify, evaluate and account for litigation or claims?	<p>Decision reports to members include financial and legal implications. Risk register would include any significant pending litigation or claims.</p> <p>Statutory Officer Group (SOG) receive an approximately 6 weekly update of all major insurance claims and the Monitoring Officer reports similarly on all major litigations. The Chief Finance Officer (CFO) determines the necessary accounting treatment, assumptions or disclosure notes for such claims.</p>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<p>No.</p> <p>HMRC are currently conducting an audit.</p>

Related Parties

Issue

Matters in relation to Related Parties

BCP 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 BCP 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 [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in BCP 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 BCP Council Whether BCP Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No changes to related parties for 2020/21 for Members or officers as disclosed in Note 31 to the financial statements.</p>
<p>2. What controls do BCP Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All councillors, directors and employees are required to adhere to the Declarations of Interests, Gifts and Hospitality Policies. This policy is reviewed annually and reminder communications sent to all..</p> <p>Personal declarations must be made to line managers with escalation to directors as appropriate. Higher tier officers have additional requirements for recording interests, gifts and hospitality.</p> <p>Failure to comply with the policy is a disciplinary offence.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Significant transactions must be approved in accordance with the financial regulations, with Cabinet and Council approval for transactions exceeding £0.5 million and £1.0 million respectively.</p> <p>The council recognises the potential conflict of interest in relation to organisations over which the council exerts control, for example companies and charities, and always ensures that Members and officers on the Board are withdrawn from any negotiations and decisions made by the Council. The Chief Financial Officer remains independent of subsidiary and charity boards in order to maintain segregation of duties.</p>

Related Parties

Question	Management response
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Significant transactions outside the normal course of business are identified either by Corporate Management Board, through reports for decision by Cabinet or Council, or as part of treasury management. Additional controls put in place as required. The most recent example would be the £20 million payment to Dorset Council for the disaggregation of the legacy Dorset County Council balance sheet as part of local government reorganisation (March 2020). The amount was subject to a confirmation letter from the Dorset Council S151 Officer and authorisation of the amount by the BCP Council S151 Officer, with the Assistant Chief Financial Officer sending the payment.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit and Governance Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>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?</p>	<ul style="list-style-type: none"> • Valuation of property, plant and equipment. • Estimate of provisions – business rate appeals • Valuation of pension liabilities • Accruals of income and expenditure • Estimates of bad debts and estimated credit losses • Fair value estimates – investment properties • Fair value estimates – financial instruments
<p>2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Risks are identified and addressed through a combination of measures:</p> <ul style="list-style-type: none"> • Use of relevant updates and bulletins from professional bodies, for example from the Actuary for pension liabilities and the Valuation Office for business rate appeals. • Use of experts to inform the calculation of the accounting estimate, for example RICS qualified valuers for property valuations and the use of Actuaries for the pension liability. • Attendance at relevant briefings and training events, for example the CIPFA and Grant Thornton accounts workshops and the Annual Meeting of the Pension Fund. • Discussions with relevant experienced officers for example with regard to large exceptional debts outstanding and legal or business rate appeals pending . • Review of Cabinet and Council reports for identified financial risks.

Accounting Estimates - General Enquiries of Management

Question	Management response
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The methods, assumptions and source data will vary depending upon the nature of the accounting estimate as set out in Appendix B.
4. How do management review the outcomes of previous accounting estimates?	<p>Management review the accuracy of previous accounting estimates and thus increase the cumulative understanding and experience of them. Accounting estimates are reviewed by external audit as part of the audit of the financial statements and any recommendations are included in an action plan as appropriate.</p> <p>The management review will vary depending upon the nature of the accounting estimate as set out in Appendix B.</p>
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	<p>Actions have been taken to improve the process for providing evidence to support valuations of property, plant and equipment as a result of the recommendations of the external auditor from the 2019/20 audit. These include the use of a single external valuer for general fund assets, early engagement between the valuer, estates and audit teams, and the engagement of external surveyors to provide external floor plans where necessary.</p> <p>There were some changes in the approach to valuing the pension liability, as recommended by the Actuary, for example making an allowance for the actual pension increase experience since the last valuation, and adjusting the mortality assumption due to the effect of the pandemic.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>Property valuations and pension fund liability valuations are the main areas that require specialist skills and knowledge due to the complexity and materiality of the estimates.</p> <p>There is further information on the specialist skills required and applied for accounting estimates in Appendix B.</p>
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?	<p>Control activities vary depending on the nature of the accounting assumption. Generally they comprise management review of results and assumptions used, advice from specialists and review by external audit.</p> <p>There is further information on the control activities for accounting estimates in Appendix B.</p>
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>Monitoring activities vary depending on the nature of the accounting assumption. Generally they comprise management review of results and assumptions used, advice from specialists and review by external audit.</p> <p>There is further information on the monitoring activities for accounting estimates in Appendix B.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>A summary of the material accounting estimates made by management in the financial statements is presented to the Audit and Governance Committee for oversight and scrutiny. This summary is presented at the same meeting as the external auditor's audit plan is presented to the Audit and Governance Committee for approval, to give assurance that the audit plan identifies all relevant risk areas.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	None other than those disclosed.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes – the management arrangements as detailed in Appendix A are reasonable.
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The arrangements for accounting estimates are provided for scrutiny to the Audit and Governance Committee at the same time as the external audit plan is considered.

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	Valuations are made by a RICS qualified valuer in line with RICS and CIPFA guidance.	<p>Management agree clear terms of engagement with the external valuer and estates team. These set out for the valuer the requirements, standards, valuation basis, timescales and format of reports.</p> <p>All valuations provided to management will be subject to robust review and challenge if appropriate.</p>	Yes – RICS qualified external valuer.	<p>To ensure that valuations are materially correct the council complies with CIPFA's 5-year rolling revaluation programme, thus valuing 20% of assets each year. In addition, the top 20 assets by value are revalued annually.</p> <p>The 80% of assets not revalued in any one year are reviewed using market indices provided by the external valuer to see if further formal valuations are required in addition to the rolling programme.</p>	<p>No.</p> <p>Actions have been taken to improve the process for providing evidence to support valuations.</p>

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?
Council dwelling valuations	Valuations are made by a RICS qualified valuer in line with RICS and CIPFA guidance.	<p>Management agree clear terms of engagement with the estates team. These set out for the valuer the requirements, standards, valuation basis, timescales and format of reports.</p> <p>All valuations provided to management will be subject to robust review and challenge if appropriate.</p>	<p>Yes.</p> <p>Bournemouth HRA internal valuer.</p> <p>Poole HRA external valuer.</p>	<p>Desk top review using industry indices and market trends and knowledge.</p> <p>20% of the housing stock/beacon property is revalued and the results applied to the remaining housing stock.</p>	<p>No.</p> <p>Actions have been taken to improve the process for providing evidence to support valuations.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Valuations are made by a RICS qualified valuer in line with RICS and CIPFA guidance regarding fair value.	Management agree clear terms of engagement with the external valuer and estates team. These set out for the valuer the requirements, standards, valuation basis, timescales and format of reports. All valuations provided to management will be subject to robust review and challenge if appropriate.	Yes – RICS qualified external valuer.	Valuations based on income streams using inputs as categorised in the fair value hierarchy.. The impact of Covid-19 on investment property valuations, which are valued using income streams, was identified as a particular risk for valuations as at 31 March 2021.	No. Actions have been taken to improve the process for providing evidence to support valuations.
Depreciation	Straight line depreciation basis used using standard asset lives as advised by estates department.	Standard asset lives used. Analytical review of amount of depreciation charged.	Suitably qualified estates officers advise on asset lives.	Straight line depreciation basis used using standard asset lives as advised by estates department.	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	<p>The actuary recommends standard assumptions to determine this accounting estimate, although these can be adjusted by management to better reflect local circumstances where appropriate.</p> <p>Pension accounting assumptions and figures are prepared in accordance with International Accounting Standard 19.</p>	<p>Management consider the pre and post March briefing notes supplied by the actuary to consider the issues raised and also attend the annual pension fund briefing where approaches to employer contributions and addressing pension deficits can be agreed.</p> <p>The actuary engages early with admitted bodies to discuss the need for bespoke assumptions for individual organisations and to ensure that the data used is up to date.</p>	Yes – pension fund actuary.	<p>Inherently risky due to materiality and estimation uncertainty.</p> <p>Management consider whether to apply bespoke assumptions rather than the actuary's standard approach by considering actuarial briefing notes in the lead up to the year end and any unique factors that effect the council.</p> <p>Management did not consider any changes to the standard demographic or financial assumptions were required.</p> <p>The actuary provides a sensitivity analysis with the valuation report that calculates the financial impact of changes in key assumptions such as longevity, salary increases and the discount rate. This is published in the statement of accounts.</p>	<p>There were some changes in the approach to valuing the pension liability, as recommended by the Actuary, for example making an allowance for the actual pension increase experience since the last valuation, and adjusting the mortality assumption due to the effect of the pandemic.</p>

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 continued.		The actuarial valuation supplied for the accounts is accompanied by a report explaining the impact of the assumptions and methods used on the balance sheet figures. The report is reviewed by management.	.		
Fair value estimates – Financial Instruments	The requirements for the valuation and accounting of financial instruments is prescribed by IFRS9 Financial Instruments and IFRS13 Fair Value.	Source data is readily available, such as the council's existing portfolio of financial instruments and market information. The estimates are reviewed by management and external audit.	Yes – the council's treasury advisors, Link Treasury Services, provide information and calculations for the fair value of borrowings.	No particular risks identified other than the risks inherent with financial instruments such as credit risk, liquidity risk and market risk. Such risks are managed through adherence to CIPFA's Code of Practice on Treasury Management and through the council's Treasury Management Policy which is approved annually by the Audit and Governance Committee.	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?
Accruals	<p>Standard accruals accounting is used.</p> <p>Procedures and deadlines for identifying accruals are included in the closedown instructions distributed to accountants and budget holders.</p>	Depending on their value, accruals are reviewed by either Finance Managers, Assistant Chief Finance Officers or the Chief Finance Officer on a weekly basis during the closedown period.	No specialised skills or knowledge used apart from knowledge of budget holders in relation to their services.	<p>No risks identified relating to the material accuracy of accruals.</p> <p>More data is available to assist in the calculation of accruals for 2020/21 as it is the second year of operation for BCP Council.</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 - NDR	<p>The 2010 list appeal provision was £11.4 million as at 1 April 2020, with £2.5 million of successful appeals during the year reducing the balance. Due to the additional uncertainty created by the possibility of ATM appeals, it was determined appropriate to top this element of the provision back up to £11.4 million as at 31 March 2021.</p> <p>The 2017 list appeal provision was £14.0 million as at 1 April 2020. Due to the lack of data on potential appeals relating to this list, an additional £5.3 million was added to the provision to bring it to £19.3 million as at 31 March 2021.</p>	The NDR provision is reviewed for reasonableness by the Assistant Chief Financial Officer and Chief Finance Officer.	The accountancy and business rates officers who compile the NDR outturn and appeal data are experienced officers and apply their skills and judgement in determining the estimate.	<p>There is inherent uncertainty in the calculation of this estimate due to the lack of data from the Valuation Office concerning appeals against the 2017 rating list, since the introduction of the check, challenge, appeal process for business rate appeals.</p> <p>There is also uncertainty created concerning appeals against the 2010 rating list. The 2010 list had been closed to new appeals but there is now the potential for material changes of circumstances appeals to be lodged after the agreement to include cash machines (ATMs) in the main rating assessment of a property rather than carrying a separate valuation.</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 – NDR continued.	The addition of £5.3 million is based on the 3.5% buoyancy factor included for appeals in the business rate multiplier, applied to the total net business rates collectable of £ 151.5 million			These risks have been addressed through detailed discussion between experienced revenues and accountancy officers as to the best approach to determining a prudent level of provision.	
Credit loss and impairment allowances	Collective lifetime expected credit losses are calculated based on the credit risk, the credit status of the instrument and whether there has been any change in the credit risk since initial recognition.	Source data available from accounts receivable and the revenues systems combined with intelligence from service managers.	No.	<p>The risk of increased credit losses due to covid-19 was assessed particularly for the effect on council tax and NDR arrears in the collection fund.</p> <p>Provisions based on a % of outstanding debt based on age, with additional provisions made to reflect reduced collection rates and increased arrears for council tax and business rates.</p>	No changes to methods but specific factors in the calculation have been reviewed in light of the risks identified, for example changes to council tax and business rate collection rates.

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		Debt is monitored as part of the quarterly revenue budget monitoring; Quarterly reports on outstanding debt at cost centre level are provided to service accountants, regular write off of bad debts are approved as per the financial regulations depending on the total value of the write offs.			



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