

# Informing the audit risk assessment for BCP Council 2021/22

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

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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 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 Audit and Governance Committee's oversight of the following areas:

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

## Purpose

This report includes a series of questions on each of these areas and the response we have received from 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 – Single entity	Management response – Group
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>The main issues that will have a significant impact on the 2021/22 financial statements will be the ongoing pressures from Covid-19 and service pressures from Children's services. These factors were partially offset by additional income and grants and savings on other services as follows:-</p> <ul style="list-style-type: none"> <li>• Service pressures of £9.4m Children's services</li> <li>• Loss of Transformation savings and other corporate service pressures of £2.1m</li> </ul> <p>These pressures were offset by savings as follows:-</p> <ul style="list-style-type: none"> <li>• Adult Social Care (£3.5m)</li> <li>• Place Operations (£13.8m)</li> <li>• Release of funding (£1.0m)</li> </ul> <p>This produced a net saving overall of £6.8m</p> <p>The effect on Reserves will have a significant impact on the Financial Statements including the increase in the Dedicated Schools grant from £7.8m to £20.3m</p> <p>Other effects on reserves include the release of earmarked NNDR and Covid funding £31m and £10m financial resilience reserve</p> <p>During the year a release of £12.7m from HRA earmarked reserves to contribute towards ring-fenced HRA Capital schemes.</p>	<p>The main issues affecting the Group Accounts would be largely the same as for the single entity but added impacts would be the business impact and loss of income resulting from Covid-19 and the supply chain effect also resulting from Covid-19 within Procurement.</p>

# General Enquiries of Management

Question	Management response – Single entity	Management response – Group
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>Continued:</p> <p>With grant income funding of £23.355m supporting the Community and businesses in respect of additional covid-19 as follows, some of which is included within services and others included within Taxation and non specific grant income:</p> <ul style="list-style-type: none"> <li>• Covid-19 tranche un-ringfenced funding of £9.9m</li> <li>• Contain Outbreak management additional surge funding of £2.5m</li> <li>• Infection Control grants totalling £5.7m</li> <li>• Welcome back fund of £0.4m</li> <li>• Additional home to school transport grant of £0.186m</li> <li>• Winter grant scheme of £0.622m and Local Council tax support funding of £3.8m</li> </ul> <p>Additionally the remainder of the Sales, Fees and Charges compensation grant totalling £3m was received</p> <p>A remainder of the 2020/21 allocation for Contain Outbreak Management funding was received during 2021/22 in respect of additional surge and test and trace totalling £2.55m and the remainder of Covid grant funding of £12.45m.</p> <p>NNDR Section 31 grant received during the year was £32.5m</p> <p>The impact on Council Tax and NNDR (particularly Appeals) bad debt provisions</p> <p>The local tax income guarantee grant totalled £1m during the year to compensate irrecoverable losses of 75% for both Council tax and NNDR</p> <p>The effects on Asset valuations , particularly within the Investment category continue to impact on the Council's income streams.</p>	

# General Enquiries of Management

Question	Management response – Single entity	Management response – Group
<p>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? If so, what are they?</p>	<p>The Accounting Policies are reviewed annually and as such reviewed as part of the 2021/22 Statement of Accounts process. There have been no changes since 2020/21.</p>	<p>The Group Accounting Policies are reviewed annually and as such reviewed as part of the 2021/22 Statement of Accounts process. There have been no changes since 2020/21.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council invests in financial Instruments in accordance with the Treasury Management Strategy and in line with guidelines of the Security, Liquidity and Yield protocols. The Council does not invest in derivatives as it does not comply with the Council's Treasury Strategy and Risk Assessments</p>	<p>The Council, as a group, invests in financial Instruments in accordance with the Treasury Management Strategy and in line with guidelines of the Security, Liquidity and Yield protocols. The Council does not invest in derivatives as it does not comply with the Council's Treasury Strategy and Risk Assessments</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>There are no significant transactions outside of the normal course of business</p>	<p>There are no significant transactions outside of the normal course of business</p>



## General Enquiries of Management

Question	Management response – Single entity	Management response - Group
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	As part of the Valuation process for revaluation of Assets annually as at the 31 March, an impairment review is included within the Valuation report. There are no changes in circumstances that would lead to impairment during the year	As part of the Valuation process for revaluation of Assets annually as at the 31 March, an impairment review is included within the Valuation report. There are no changes in circumstances that would lead to impairment during the year
6. Are you aware of any guarantee contracts? If so, please provide further details	No	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	Note 36 within the Statement of Accounts for 2021/22 'Contingent Liabilities' discloses the potential impact that Business Rate Appeals may affect the financial statements and Note 19 includes a provision for both Business Rate Appeals and Insurance	Note 36 within the Statement of Accounts for 2021/22 'Contingent Liabilities' discloses the potential impact that Business Rate Appeals may affect the financial statements and Note 19 includes a provision for both Business Rate Appeals and Insurance
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?	A list of the invoices processed by Legal Services and which relate to commissioned legal services has been sent to External Audit under separate cover	

# General Enquiries of Management

Question	Management response – Single entity	Management response – Group
9. Have any of the BCP Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No reports from Service Providers	No reports from Service Providers
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Treasury Management Advisors – Link Asset Services Insurance Marsh Ltd CIPFA Toolkit LG Futures Ltd – Business Rates and Local Government Finance Pixel Financial Management Ltd – Local Government Finance KPMG – Financial Systems – full ERP System	Treasury Management Advisors – Link Asset Services Insurance Marsh Ltd CIPFA Toolkit LG Futures Ltd – Business Rates and Local Government Finance Pixel Financial Management Ltd – Local Government Finance KPMG – Financial Systems – full ERP System
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Note 15 within the Financial Statements 'Nature and extent of risks arising from Financial Instruments' includes a calculation of the Expected Credit Losses which were non-material to make any provision or impairment adjustment in accordance with IFRS 9	Note 15 within the Financial Statements 'Nature and extent of risks arising from Financial Instruments' includes a calculation of the Expected Credit Losses which were non-material to make any provision or impairment adjustment in accordance with IFRS 9  Additionally for the Group, the consolidated Balance sheet will include companies which have been prepared on Charities SORP

# Fraud

## Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with both the Audit 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 – Single entity	Management response – Group
<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>The Council's Website holds a number of strategies, plans and policies and also the Financial Regulations. Those included within this category are:</p> <p>BCP Anti-Fraud and Corruption Policy</p> <p>Risk Management Strategy/Fraud Risk Register</p> <p>An annual Counter fraud report to Audit and Governance Committee</p> <p>Specialist investigative resource to support management with certain aspects of external fraud to the Council is provided via the Corporate Fraud Specialist</p> <p>Internal Audit are part of the a number of Counter-Fraud networks which the Council becomes aware of and responds to new 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 onto appropriate parties eg. Police/DWP.</p> <p>The annual counter-fraud report to the Audit &amp; Governance Committee (scheduled October 2021) details the outcomes. 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> <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 &amp; Governance Committee.</p>	<p>Response as per the entity – additionally the Charity Trusts are consolidated into the Group Accounts due to their materiality but any fraud risks will be the same as the reporting lines for the entity.</p>

# Fraud risk assessment

Question	Management response – Single entity	Management response – Group
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The internal audit fraud risk assessment identifies service areas most at risk to fraud. The Annual audit plan is informed using this risk assessment.</p> <p>As part of the Audit Plan for 2021/22 the following :-  Housing Tenancy, Direct payments, Corporate fraud such as housing allocation, tenancy, Right to buy and Blue Badges, Procurement, NFI data matching support &amp; investigation, Serious and organised crime 160 days</p>	<p>Same as for the entity</p>
<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 2021? If so, please provide details</p>	<p>Not aware of any instances of fraud other than those mentioned below relating to Covid19 grants, the next report for reporting cases will be submitted to Annual and Governance Committee during October 2022.</p>	<p>Same as for the entity</p>

# Fraud risk assessment

Question	Management response – Single entity	Management response – Group
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The management team communicate risk issues via the Audit and Governance Committee (the latest being the 26 July 2022) which includes an update to the Corporate Risk Register and is monitored quarterly and updated for any new risks. An annual report includes instances of fraud and whistleblowing	Same as for the entity
5. Have you identified any specific fraud risks? If so, please provide details  Do you have any concerns there are areas that are at risk of fraud?  Are there particular locations within BCP Council where fraud is more likely to occur?	None other than those within the Corporate Risk Register and outlined below. *  There were concerns during the pandemic in 2020/21 and partly into 2021/22 of which are outlined below. *  During 2020/21 and partly in 2021/22 there were fraudulent applications for Covid19 grants. Some of which partly recovered and others subject to national scale and via National Investigation Service within the Police.*	Same as for the entity
6. What processes do BCP Council have in place to identify and respond to risks of fraud?	A counter fraud and anti corruption policy which contains whistleblowing, anti-money laundering, Bribery Act, Fraud response plan and Schools guidance are all in place. Risk Management/Fraud Risk Register in place An annual counter fraud report is reported to the Audit and Governance Committee Specialist investigative resource to support management with certain aspects of external fraud to the Council is reported via the Corporate Fraud Specialist Counter fraud networks are reported through the Internal Audit to ensure the Council becomes aware of and responds to new and emerging risks All allegations are reported to the Chief Internal Auditor and Chief Finance Officer as required under the Financial Regulations and appropriate investigations carried out The Council promptly investigates all potential cases of fraud and corruption using skilled and trained staff or passes cases to the Police/DWP or relevant authority	Same as for the entity

# Fraud risk assessment

Question	Management response – Single entity	Management response – Group
<p>7. How do you assess the overall control environment for BCP Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit review the effectiveness of the system of internal controls through delivery of the approved Internal Audit Plan. The Chief internal Auditors annual report to the Audit and Governance Committee provides assurance on the effectiveness of the internal audit function. The report of the 26 July 2022 stated:</p> <p>It is the opinion of the Chief Internal Auditor that during the 2021/22 financial year:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> arrangements were in place to ensure an adequate and effective framework of governance, risk management and control (internal control environment) and that where weaknesses were identified there was an appropriate action plan in place to address them;</li> <li><input type="checkbox"/> the systems and internal control arrangements were effective and that agreed policies and regulations were complied with;</li> <li><input type="checkbox"/> adequate arrangements were in place to deter and detect fraud;</li> <li><input type="checkbox"/> there was an appropriate and effective risk management framework;</li> <li><input type="checkbox"/> managers were aware of the importance of maintaining internal controls and accepted recommendations made by Internal Audit to improve controls;</li> <li><input type="checkbox"/> the Council's Internal Audit service was effective and compliant with all regulations and standards as required of a professional internal audit service; and that</li> <li><input type="checkbox"/> the arrangements, in respect of the Chief Internal Auditor, were consistent with all of the five principles set out in the CIPFA publication "The Role of the Head of Internal Audit in Public Sector Organisations".</li> </ul> <p>Other controls in place are mentioned above in Question one</p> <p>No known areas for override of controls or inappropriate influence over the financial reporting process.</p>	<p>Same as for the Entity</p>

## Fraud risk assessment

Question	Management response – Single entity	Management response – Group
8. Are there any areas where there is potential for misreporting? If so, please provide details	No known areas for misreporting.	No known areas for misreporting
<p>9. 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? Have any significant issues been reported? If so, please provide details</p>	<p>Employees are communicated through the Staff induction process, Employee Code of Conduct, the Constitution within Financial Regulations, and the Anti-fraud and corruption policy.</p> <p>A specific E-learning module has been set up and is included within the Induction process</p> <p>Staff are encouraged to report concerns through the Anti-fraud and corruption policy and also the Council's Whistleblowing policy. No significant issues have been reported, however the outcomes of this counter fraud work (including concluded investigations and NFI results) are incorporated into the Internal Audit Counter Fraud Work and Whistleblowing Referrals annual report which will be presented to the October 2022 Audit &amp; Governance Committee meeting.</p>	Same as for the Entity



## Fraud risk assessment

Question	Management response – Single entity	Management response – Group
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High-risk posts would be those that have access to financial systems that enable the user to make a fraudulent payment or misuse of income if controls were over-ridden e.g. Treasury Management, Debtors, Creditors and Income Collection. Senior Officers engaged in major contracts and procurement would also be considered as high-risk.</p> <p>Risks relating to these posts are identified through Controls such as Segregation of Duties, Panel evaluation process, involvement by the Strategic Procurement team in all purchases greater than £25,000. All Senior Officers at Tier 4 and above have up-to-date Declaration of Interest, gift and hospitality form2 logged with the Monitoring Officer.</p> <p>Annual Audits of key Financial Systems consider the key controls which include this risk of fraudulent activity.</p>	<p>Same as for the Entity</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No known Related Party relationships that could give rise to instances of fraud</p> <p>Formal governance arrangements are in place for each partnership/organisation including boards and formal agreements and documented roles/responsibilities.</p>	<p>The Consolidated Group Financial Statements contain that of the Entity and 3 Charitable Trusts 100% under the Control of BCP Council.</p> <p>There are no known Related Party relationships that could give rise to instances of fraud.</p> <p>Formal governance arrangements are the same of that of the Entity.</p>

## Fraud risk assessment

Question	Management response – Single entity	Management response – Group
<p>12. 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 and corruption risk assessment and corresponding work programme</p> <p>Any significant investigations are reported to the Chair of the Audit Committee on an adhoc basis.</p> <p>An Annual Counter-fraud report is presented to the Audit and Governance Committee</p> <p>The annual Counter-fraud report to the Audit and Governance Committee will be presented in October 2022 and will detail the outcomes.</p> <p>A list of audit investigations is sent to the External Auditors.</p>	<p>Same as for the Entity</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Annual report to Audit and Governance Committee on counter-fraud work includes outcomes of any whistleblowing referrals. The internal audit response to referrals is included in a confidential appendix.</p>	<p>Same as for the Entity</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports were made under the Bribery Act during 2021/22.</p>	<p>No reports made</p>

# Law and regulations

## Matters in relation to laws and regulations

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

Management, with the oversight of the Audit 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 body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

# Impact of laws and regulations

Question	Management response – Single entity	Management response – Group
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does BCP Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>All reports for decision have a section considering legal implications.</p> <p>All reports for Council/Cabinet 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>These arrangements and assurance aspects are no different from the Entity</p> <p>No changes as per the Entity</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 and Governance Committee ensures 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>As per the Entity</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>There are no known significant non-compliance of laws/regulations that would have any material impact on the 2021/22 Financial Statements.</p>	<p>Same as for the Entity</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>The specific details of potential claims will be sent to External Auditors.</p>	<p>Same as for the Entity</p>

## Impact of laws and regulations

Question	Management response – Single entity	Management response – Group
5. What arrangements does BCP Council have in place to identify, evaluate and account for litigation or claims?	Decision reports to Members include Financial and Legal implications. The Risk Register would include any significant pending litigation or claims. The Statutory Officer Group (SOG) receive an approximate 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.	Same as per the Entity
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No. HMRC are currently conducting a VAT audit.	No.

# Related Parties

## Matters in relation to Related Parties

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

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

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the 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 – Single entity	Management response – Group
<p>1. Have there been any changes in the related parties including those disclosed in BCP Council's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and BCP Council</li> <li>whether BCP Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>No changes to related parties including those disclosed in Note 31.</p>	<p>No changes to related parties</p>
<p>2. What controls does 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 report Declarations of Interest, Gifts and hospitality. Failure to comply is subject to a disciplinary offence.</p>	<p>All Councillors, Directors and Employees are required to report Declarations of Interest, Gifts and hospitality. Failure to comply is subject to a disciplinary offence.</p>

## Related Parties

Question	Management response – Single entity	Management response – Group
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	<p>Significant transactions must be approved in accordance with the Financial Regulations , Cabinet and Council approval for transactions exceeding £0.5m and £1m respectively.</p> <p>The Council realises 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 by the Council. The CFO remains independent of Charity and Subsidiary Boards in order to maintain Segregation of Duties.</p>	Same as per the entity
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.	



# Climate Change and Wider Global Issues

## Matters in relation to Climate Change and Wider Global Issues

In addition to the issues outlined in other sections, the audit team have deemed it appropriate to include inquiries regarding the impact of climate change, and wider global issues such as the Russian invasion of Ukraine, may have on the Council's financial statements. These global issues are increasingly impacting the environment of local government bodies, and the inquiries in the following page relate to how these issues are expected to impact the Council's financial statements, risk management assessment, and medium term financial plan.

# Climate change and Wider Global Issues

Question	Management response – Single entity	Management response – Group
1. Has BCP Council considered the impact that climate change, and particularly the Council's declaration of a climate emergency, on the Council's financial statements during current year and future years?	The narrative Statement within the Financial Statements outlines proposals for climate change and Children's services, as an example, includes a service budget for impact on climate change in page 8 of the Financial Statements.	As per the Entity
2. How has the impact of climate change, and other global issues, been taken into account by the Council as part of it's medium term financial plan? Additionally, how have these issues been considered as part of the Council's risk management arrangements?	The medium term financial plan includes a budget for climate change impact. The Council's Risk Management arrangements includes reference CR20 which refers to risk information relating to Climate Emergency and the associated key mitigations in place.	As per the Entity
3. Are increasing levels of insurance premiums as a result of climate change likely to materially impact the Council's financial statements?	CR20 within the Council's Risk Management Plan indicates increasing levels of insurance premiums as an indirect physical risk .	Same as per the Entity
4. How has the Council factored the risk of changing borrowing rates available to the Council, as a result of global issues, into it's cashflow forecasting and treasury management strategy?	The Treasury Management update report outlines the risk to the changing borrowing rates available to the Council. A monthly update on Investments and borrowing is sent to the relevant Councillor and CFO and Assistant CFO by the Treasury Accountant.	As per the Entity

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response – Single entity	Management response – Group
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by BCP Council will no longer continue?</p>	<p>In considering what has been highlighted in this report the Council remains a “going concern”, and the Council’s accounts for 2021/22 have appropriately been prepared on this basis.</p> <p>Despite the financial challenges it faces, and the global pandemic in 2020/21 impacting partly on 2021/22, its financial position is compatible with the status of a going concern. This assessment will be undertaken annually in the course of preparing the Council’s financial statements for each year.</p>	<p>In considering what has been highlighted in this report the Group remains a “going concern”, and the Group accounts for 2021/22 have appropriately been prepared on this basis.</p> <p>Despite the financial challenges it faces, and the global pandemic in 2020/21 impacting partly on 2021/22, its financial position is compatible with the status of a going concern. This assessment will be undertaken annually in the course of preparing the Council’s Group financial statements for each year.</p>
<p>2. Are management aware of any factors which may mean for BCP Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Management are not aware of any factors which will impact on continuation of provision of statutory services or funding will be discontinued.</p>	<p>Management are not aware of any factors which will impact on continuation of group activity</p>
<p>3. With regard to the statutory services currently provided by BCP Council, does the Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for BCP Council to cease to exist?</p>	<p>The MTFP is refreshed annually and outlines a balanced budget for 2021/22. Statutory services will continue for the foreseeable future.</p>	<p>The Group will continue to deliver the services and activities contained within the group for the foreseeable future.</p>

# Going Concern

Question	Management response – Single entity	Management response – Group
<p>4. Are management satisfied that the financial reporting framework permits BCP Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Management are satisfied that the financial reporting framework permits BCP Council to prepare its financial statements on a going concern basis and that they provide a faithful representation of the items in the financial statements.</p> <p>Management continually monitors its financial position, given that the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils, it is essential that the Council not only monitors performance management reporting but also its reserves, valuation of assets and provisions are reviewed on a regular basis including financial and non-financial assets.</p>	<p>As per the Entity</p>

# Accounting estimates

## Matters in relation to accounting estimates

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

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

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

Specifically do Audit 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 – Single entity	Management response – Group
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?	Valuation of Property Plant & Equipment (PPE) Fair value estimates of Investment Properties Fair value estimates of Financial Instruments Accruals of income and expenditure Valuation of the Pension Fund Assets & Liabilities Bad Debt provision estimates & expected credit losses including estimation techniques used in Business Rate Appeals Provision	As per the Entity – BCP has 100% control over the 3 charitable trusts consolidated into the Financial Statements
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	Risks are identified through a combination of measures such as: Communication through bulletins from professional organisations for example Actuarial statements and Estimates from the Pension Actuaries and the Valuation Office in respect of Business Rate Appeals and the use of RICS registered Valuers in estimating Property Valuations. Statistical data such as Trends in CPI and RPI can identify early risks relating to accounting estimates. Online technical updates/ briefings from bodies such as CIPFA, Grant Thornton workshops and other professional advisors such as Link Asset Services Review of Council and Cabinet Reports for identifying financial risks	As per the Entity
3. How does 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 and depend on the type of accounting estimate as set out in Appendix A	As per the Entity

## Accounting Estimates - General Enquiries of Management

Question	Management response – Single entity	Management response – Group
4. How do management review the outcomes of previous accounting estimates?	<p>Management review the outcomes of previous accounting estimates through any trends in previous accounting periods , for example, such as a change in the Yield Bond Curve on the Pension fund investments will change year on year and impact on the Pension Liability and Assets and the net Liability.</p> <p>Accounting estimates are reviewed annually as part of the Annual Audit and will set a precedence for the future years accounting estimates. The management review will vary depending on the type of accounting estimate as set out in Appendix A.</p>	As per the Entity
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	<p>No changes were made to the estimation processes in 2021/22 as a few changes /improvements were already implemented further the 2020/21 Annual Audit in respect of PPE and investment property valuations surrounding floor and land areas and a change in Valuer. Different Valuers use different assumptions and therefore this can impact on estimation techniques particularly that of the fee percentages applied to valuations. A pragmatic approach was adopted for 2021.22 in order to align fee percentages against market averages.</p> <p>In relation to the Pension Actuaries, changes to mortality rates were changed during the year as a knock on effect since the pandemic.</p>	No changes made to the Estimation processes for the Group in 2021/22
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The Council procures the expertise and skills of professional RICS valuers for the valuation of the Council's Non-Current Assets and also professional Actuaries for the Pension Fund annual Actuarial Statement. During 2021/22 the Council procured a new RICS Valuer for the valuation of PPE and other Non-current assets.	As per the Entity



## Accounting Estimates - General Enquiries of Management

Question	Management response – Single entity	Management response – Group
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?	Control activities vary according to the nature of the accounting assumption. Generally they comprise of management review of results and assumptions used , advice from specialists and review by external audit.	As per the Entity
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Monitoring the operation of Control activities again varies according to the nature of the accounting assumptions. Generally they comprise of management review of results and assumptions used , advice from specialists and review by external audit.	As per the Entity
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"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	A summary of the accounting methods and techniques used by management in the financial statements is presented to Audit and Governance Committee for overview and scrutiny. This summary is presented at the same meeting as the external auditor's plan is presented to the Audit and Governance Committee for approval , to give assurance that the audit plan identifies all relevant risk areas.	As per the Entity
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	None other than those disclosed in Appendix A	None other than those disclosed in Appendix A

# Accounting Estimates - General Enquiries of Management

Question	Management response – Single entity	Management response – Group
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The management are satisfied that their arrangements for the accounting estimates are reasonable, whilst there will almost always be inherent risks within certain categories of estimation assumptions, all other assumptions are based on Professional Valuers that are highly skilled and trained in their assumptions and techniques used to base their estimates upon.	The management are satisfied that their arrangements for the accounting estimates are reasonable, whilst there will almost always be inherent risks within certain categories of estimation assumptions, all other assumptions are based on Professional Valuers that are highly skilled and trained in their assumptions and techniques used to base their estimates upon.
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.	As per the Entity

## 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 carried out by a professional RICS registered Valuer in accordance with IFRS asset categories and the CIPFA code of practice and RICS Red book	Management agree clear terms of engagement with the External Valuer and Estates team. These set out for the valuer a schedule of the assets that require valuation, the basis, standards, timescales, format of reports plus all other relevant information relating to the properties to be valued	Yes RICS Registered Valuer	To ensure that valuations of Land & Buildings complies with the CIPFA code of practice, in that for all assets carried at current value i.e. Operational PPE must be valued with sufficient regularity to ensure that the carrying amount does not significantly differ from that of current value. Those assets which are significantly volatile to changes in current value should be valued more frequently in accordance with IAS16 PPE. The Code accepts that as a minimum assets should be revalued every 5 years. The 80% that are not revalued will be indexed using market indices to check that they do not significantly differ from current value.	No Actions have been taken to improve the valuations process
Depreciation	For those assets subject to depreciation a straight line basis has been used and applied with useful estimated life obtained from Estates or from the Valuer.	Standard asset lives used. An Analytical review is carried out of the amount of depreciation charged.	Suitably qualified Estates Surveyors advise on Asset lives	Straight line method of depreciation used by applying 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?
Council dwelling valuations	A RICS registered Valuer carries out the Valuations annually in line with CIPFA Code of practice, RICS and guidance from Central government on Stock Valuation for resource accounting.	Management agree clear terms of engagement with the External Valuer and Estates team. These set out for the Valuer timescales, standards, basis for valuation . All valuations will be subject to robust scrutiny by Management.	Yes – An External Valuer for Poole and internal valuer for Bournemouth	Council dwellings are valued at Current Value based on EUV-SH and a beacon approach adopted to assess the type of property and whether vacant or occupied. Methodology as set out in the Stock Valuation for resource accounting : Guidance for Valuers 2016. A RICS registered Valuer carries out the Valuations annually.	No Actions have been taken to improve the valuations process
Investment property valuations	Valuations are carried out by a professional RICS registered Valuer in accordance with IFRS asset categories and the CIPFA code of practice regarding Fair Value and RICS Red book	Management agree clear terms of engagement with the External Valuer and Estates team. These set out for the Valuer timescales, standards, basis for valuation . All valuations will be subject to robust scrutiny by Management.	Yes – A RICS Registered External Valuer	Based on Fair Value hierarchy i.e. highest and best use and rental income streams. Other factors and risks are achieving market yields and rent review patterns, as well as length of terms. Ground rents also considered as to be low or high risk dependent on the type of property.	No Actions have been taken to improve the valuations process

## 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 sends a pre report and post report with the methods and assumptions used.</p> <p>Key financial assumptions include the discount rate , linked to high quality corporate bond yields, and the rate of future inflation.</p> <p>As required under IAS 19 and FRS102 standards, the Actuary has used the projected unit credit method of valuation.</p> <p>The Actuarial valuation supplied for the accounts is accompanied by the assumptions &amp; methods used on the Balance Sheet figures. The report is reviewed by management.</p>	<p>Management consider the pre and post march briefing notes supplied by the Actuary to consider issues raised &amp; to attend the Pension fund briefing where approaches to Employer contributions &amp; addressing pension deficits can be agreed.</p> <p>The Actuary engages early with admitted bodies to discuss the need for reasonable assumptions for individual organisations &amp; to ensure data is up to date.</p>	Yes. Pension Fund Actuary	<p>Inherent risk present due to materiality and uncertainty.</p> <p>Management consider whether to apply bespoke assumptions rather than the Actuary's approach by reviewing the Actuarial pre-briefing notes in the lead up to the year end period and to the potential impact to 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.</p> <p>This is published in the Statement of Accounts.</p>	No

## Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates – Financial Instruments	The requirements in accounting for Financial Instruments is prescribed by IFRS 9 and also IFRS 13 (Fair Value Measurement)	Future projections are supplied by our Investment advisors and source data is readily available such as market information in maintaining the Council's Investment Portfolio. The estimates are reviewed by Management and External Audit.	Yes. The Council's current treasury advisors 'Link Asset Services' provide information and calculations on fair value estimates	No particular risks other than those inherent risks with financial instruments such as market rate risk, liquidity and credit risk. An expected credit loss estimate is provided within the Financial Statements. Such risks are generally managed through the Council's treasury management policy which is approved annually by the Audit and Governance Committee.	No
Accruals	An accruals process is included within the Year end timetable and closedown process with deadlines and in accordance with standard Accruals accounting. This is distributed to all staff involved in accounts preparation and budget holders before year end process commences.	Dependent on the value of accruals they will be reviewed by a Finance Manager, Chief Finance Officers or Assistant Chief Finance Officers on a weekly basis during closedown.	No specialist skills or knowledge used apart from Budget Holders whom have a service knowledge base of the relevant accrual.	No risks identified relating to the material accuracy of the accruals. A list of automated accruals is sent round early in the process by the Financial Management Systems Team to avoid duplication of accruals	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	Methodology used will be based on the Valuation Office (VO) data downloaded as at the end of March with the IPP Appeals listings – the amount outstanding is still in the 3 Legacy Councils and is therefore totalled up before it progresses to the next stage. There are still two listings one from the 2010 lists and the 2017 lists (the latter being subject to CCA appeals ie Check Challenge and Appeal) All duplicate appeals must be stripped out from the IPP lists ATM's have been adjusted for during the year due to the overturn on the court of appeal ruling back in May and backdated to 2010.	The NNDR Appeals Provision is reviewed by the Chief Finance Officer and the Assistant Chief Finance Officer for completeness.	The VO office are experts in this field and we use their site to download VO appeals data. Also the Business Rates Officers are IRRV qualified professionals.	Since the 2017 listings were based on Check Challenge and Appeal basis, there has been some uncertainty surrounding the 2017 element of the Appeals provision therefore inherent risk in calculating estimates. The 2010 list has been closed in respect of new appeals but further to Covid-19 during 2021 and filtering through to 2022, a material change in circumstances (MCC) appeals but this now creates the potential for ATMs to be lodged further to the court ruling that these cash machines be included as part of the retail development rather than a separate valuation.	No

## Appendix A - Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	An impairment loss allowance is set aside equal to 12 month ECL (expected credit losses) except where it is equal to lifetime ECL's i.e. when credit risk has increased significantly since initial recognition or where the simplified approach has been used.	Source data available from accounts receivable and the revenues system combined with expert knowledge from Service Managers. ECL's on Investments obtained default percentage from Treasury Advisors – a calculation of which is contained with the disclosures in the Financial Statements. 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.	Yes – for ECL's a Treasury Advisor within Link Asset services. For all other impairment losses no	Further to Covid-19 in 2020/21 and 2021/22 , increased credit losses surrounding NNDR and Council tax arrears increased the risk of uncertainty.  Provisions based on a percentage of outstanding debt and aged debt profiling involved an increase in provisions for Council tax and NNDR to reflect the reduction in collection.	No.





# Grant Thornton

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