

Informing the audit risk assessment for London Borough of Brent 2022/23

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between London Borough of Brent's external auditors and London Borough of Brent's Audit and Standards 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 Standards Committee under auditing standards.

Background

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

This two-way communication assists both the auditor and the Audit and Standards 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 Standards Committee and supports the Audit and Standards 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 London Borough of Brent'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 London Borough of Brent's management. The Audit and Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>Key issues are the cost of living crisis, inflation, high energy prices and increased demand for key services post covid.</p> <p>These are having a significant impact on service area budgets, especially childrens' and adults' social care.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by London Borough of Brent? 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 appropriateness of the accounting policies adopted have been considered and are still appropriate and in accordance with the CIPFA code of practice.</p> <p>No event or transactions have caused a change or adoption of new accounting policies, other than the changes to soft loan accounting arising from the last audit.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>No use of financial derivatives. Continue to transact in the same types of instruments as 2021/22. These include:</p> <p>Assets:</p> <p>Cash in hand; bank current and deposit accounts with NatWest bank; loans to small companies and housing associations; lease receivables; Trade receivables for goods and services provided; Money market fund</p> <p>Liabilities:</p> <p>Long-term loans from the Public Works Loan Board and commercial lenders; Short-term loans from other local authorities; Overdraft with NatWest Bank; Lease payables; Private Finance Initiative contracts; Trade payables for goods and services received.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No one off circumstance that would cause widespread impairment.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by London Borough of Brent during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<ol style="list-style-type: none"> 1. Bevan Brittan – not open litigation 2. Trowers & Hamblins - not open litigation 3. TLT – not open litigation 4. Ashfords – not open litigation 5. Capsticks – not open litigation 6. Judge & Priestley – Probate solicitor. 7. Pinsent Masons - Open Litigation 8. Plexus, Kennedy's and Legitimus for open litigation. 9. Eversheds Sutherland – not open litigation 10. Sharpe Pritchard – not open litigation

General Enquiries of Management

Question	Management response
<p>9. Have any of the London Borough of Brent's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>No</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<ul style="list-style-type: none"> • Local Partnerships around PFI/PPP contracts • LG Futures for Business Rates on the mini London pool • Arlingclose Ltd - Treasury management advisors consulted on ongoing Treasury Management activities and provide regular market and regulatory updates.
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>All financial investments (covered within the accounting standard) have gone through an ECL review. The initial calculations indicate that all ECL calculations are not material for the accounts but full calculations and working papers can be provided to evidence this.</p> <p>Simplified approach model permitted under IFRS 9, using aged debt profile to determine expected levels of non-collection</p>

Fraud

Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with both the Audit and Standards Committee and management. Management, with the oversight of the Audit and Standards 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 Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As London Borough of Brent'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 Standards 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 Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Standards 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 London Borough of Brent's management.

Fraud risk assessment

Question	Management response
<p>1. Has London Borough of Brent 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 London Borough of Brent's risk management processes link to financial reporting?</p>	<p>No concerns or issues have been identified in respect of fraud that may result in material misstatements to the financial statements.</p> <p>All known material risks are considered as part of our Internal Audit annual planning process. We also deliver a three-year rolling Key Financial Systems/controls programme of work.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Whereas all financial systems are inherently at risk of fraud, we are satisfied that there are currently none which exceed management's risk appetite.</p> <p>Additionally, Internal Audit work with management annually to identify all areas where independent assurance may be helpful. This includes identifying which key financial systems and processes should be included in the audit plan if there are any emerging risk factors.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within London Borough of Brent as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>We have a Counter Fraud team who seek to prevent, detect and prosecute fraud. There are a number of fraud categories which we manage. Full details are online in our quarterly and annual reports available via the Council's website. A recent example is: Agenda item - Counter Fraud Interim Report 2022-23 (brent.gov.uk)</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk issues are reported in a broad number of ways, including:</p> <ol style="list-style-type: none"> 1) Quarterly Internal Audit and Counter Fraud progress reports are reported to CMT and the Audit and Standards Advisory Committee. 2) Internal Audit reports and Investigation reports are shared with all appropriate stakeholders and senior management. 3) The Head of Internal Audit (HIA) meets regularly on a 1:1 basis with the Chief Executive, Monitoring Officer, Director of Finance, and Chair and Vice Chair of the Audit Committee. Any risk issues are covered during these forums. 4) The HIA sits on the Council's Corporate Governance Group, and provides updates surrounding IA and counter fraud activities.
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within London Borough of Brent where fraud is more likely to occur?</p>	<p>Like all local authorities, fraud is a significant inherent risk to the Council. We have a counter fraud plan in place which seeks to detect and prevent fraud against the highest known fraud risks.</p>
<p>6. What processes do London Borough of Brent have in place to identify and respond to risks of fraud?</p>	<p>Please refer to answers provided above.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for London Borough of Brent, 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)? If so, please provide details</p>	<p>These functions are part of the overall corporate governance and risk management framework. Internal Audit provide independent assurance on the effectiveness of these arrangements via annual plan delivery and reporting to those charged with governance.</p> <p>Robust controls in place for all approvals with the way Oracle Cloud has been designed for the business and within Finance. System restrictions prevent non-compliance. Treasury Management activities follow strict procedures and controls which are reviewed by management regularly.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No areas are at elevated risk for misreporting, there are a range of controls in place, and the council's internal audit team monitor the effectiveness of controls across the council, and monitor implementation of action plans to address any risks identified.</p>

Fraud risk assessment

Question	Management response
<p>9. How does London Borough of Brent 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>This is undertaken via the Council's Anti-Fraud and Corruption policies (including Whistleblowing); fraud awareness programmes, Intranet/ Yammer communications; and induction processes. The Code of Conduct for officers and members states it is everyone's responsibility to report suspected fraud.</p> <p>The Council's Anti-Fraud and Corruption states:</p> <p><i>As an employee, agency staff, contractor, teacher or support staff in schools - If you suspect fraud or bribery in any of the council's or school's activities, either committed by a member of the public or a member of staff, you have a duty to inform the Audit and Investigations Team. You can either do this directly or via your manager.</i></p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Fraud is an inherent risk to any organisation and cannot immediately be specified to high-risk posts.</p> <p>Within finance, the highest risk areas are around changing supplier's and staff bank details, and making payments, and there are a range of controls in place to reduce risk of fraud and corruption including segregation of duties and procedures for approval.</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>Not aware of any related party relationships or transaction that could give rise to instances of fraud.</p> <p>The council requires members and staff to declare any potential conflicts of interest. Managers are required to monitor and approve or reject some declarations by their members of staff. Members' interests are declared to the monitoring officer and disclosed publicly.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Standards Committee?</p> <p>How does the Audit and Standards 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>Quarterly Internal Audit and Counter Fraud progress reports are reported to CMT and the Audit and Standards Advisory Committee. The Audit and Standards Advisory Committee questions the council's officers about these reports. These discussions are minuted and available via the council's website. Outcome is enhanced profile of the work of the counter fraud team.</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>We receive a large number of fraud referrals and allegations from both employees and other parties. Full details of which are published in our interim and annual counter fraud reports, available on the Council's democracy webpages.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

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

Management, with the oversight of the Audit and Standards Committee, is responsible for ensuring that London Borough of Brent'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 Standards Committee as to whether the council is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does London Borough of Brent 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>Management gain assurance in this area from the range of management controls in place to manage all services - e.g. including recruitment and training of appropriately qualified staff, a robust policy and procedure framework and effective management oversight and control. Legal and Financial implications are required to be included in all reports for decisions by Cabinet members and member level decision-making bodies as well as in all key decision report to officers. Additionally, independent and objective assurance is provided by the Internal Audit function as well as other external assurance providers. We are not aware of any changes to the Authority's regulatory environment that may have had a significant impact on the Authority's financial statements.</p>
<p>2. How is the Audit and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Internal Audit annual plan is the key source of assurance for ASAC. This plan is focused on the highest risk areas for the Council. Each Audit review will consider compliance with policy, plans, laws and regulation as part of the scope for that review.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>No</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>These are reviewed and disclosed in the Statement of Accounts as either provisions or contingent liabilities.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does London Borough of Brent have in place to identify, evaluate and account for litigation or claims?</p>	<p>The council has reviewed claims received by its Legal team and through its Insurance claims processes, and followed the principles stipulated by the FRS and CIPFA.</p> <p>Other possible claims are identified by open communication with services through regular budget monitoring, Capital sub-boards and Capital Programme Board to raise and monitor any outstanding litigation</p>
<p>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</p>	<p>No</p>

Related Parties

Matters in relation to Related Parties

London Borough of Brent 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 London Borough of Brent;
- 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
<p>1. Have there been any changes in the related parties including those disclosed in London Borough of Brent's 2021/22 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and London Borough of Brent • whether London Borough of Brent has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>At the time of writing no changes to the council's related parties have been identified, although the year end review of related parties is still in progress.</p>
<p>2. What controls does London Borough of Brent have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Annual related parties return from Senior managers and Members where they'll disclose whether they have any related party transactions or relationship. All Members are required to submit register of interest Review of the GL transaction for related party transactions. Review process of the annual accounts (including review by the Director of Finance) to ensure related party relationship are captured. Staff are required to declare any conflicts of interest annually.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Council's procurement policy ensure contracts are awarded to the most suitable bidder. In addition the Council has various internal control for approving transactions such as segregation of duty and authorisation levels. And detective controls such as budget monitoring.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Council has various internal control for approving transactions such as segregation of duty and authorisation levels. And detective controls such as budget monitoring.</p>

Going Concern

Matters in relation to Going Concern

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

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

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

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

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by London Borough of Brent will no longer continue?</p>	<p>Regular review of the impact of central government announcements. Monitored through regular senior management meetings and collaboration with wider London/national groups. Also reviewed as part of annual budget challenge sessions with senior Council officers and members.</p>
<p>2. Are management aware of any factors which may mean for London Borough of Brent that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by London Borough of Brent, does London Borough of Brent 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 London Borough of Brent to cease to exist?</p>	<p>London Borough of Brent expects to continue to deliver their statutory services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits London Borough of Brent 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>Yes</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<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"> • Impact on collection rates from cost of living crisis • Insurance claims provision • Purchase Order Accruals are reviewed each year. This year historic purchase order accruals are written off, reviewed and then re accrued where required. • Property, plant and equipment (PPE) valuation and depreciation
<p>2. How does the council's risk management process identify and address risks relating to accounting estimates?</p>	<p>Included in Corporate Risk Register and Internal Audit Reviews</p> <p>Where possible the Council would base our accounting estimates on external expert advice/opinion, such as for PPE valuation, Pension Fund valuation, Treasury management advisors and etc</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Corporate Finance, SLT, Service DMTs and Audit Committee reviews</p> <p>Where relevant the Council would also receive guidance from our external expert.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Review outturn against accruals made. Make improvements to accrual methodology based on this analysis.</p> <p>Sample checks of estimates.</p>
<p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p>	<p>No</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<ul style="list-style-type: none"> • Employ external experts where there is limited knowledge (e.g. PFI). Accruals to have supporting workings. • External solicitors' consultation by exception. • Professional judgement of the service areas involved. • Additional specific external training for Staff
<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>	<p>For Plant, Property and Equipment (PPE) valuations the external valuer's revaluation is reviewed and challenged by the Council's Property team's expert. The Council's finance team also reviews the revaluation. Every asset on the revaluation list are reviewed. Each year management are required to submit returns notifying finance of any impairment to ensure the valuation estimate are appropriate.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<ul style="list-style-type: none"> • HoF/SFA review of accruals proposed by Service and material estimates • For PPE Valuations, the external Valuer's estimates are reviewed by experts in this field from the Property team. The valuation are also reviewed by Finance and any significant difference are challenged.
<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. 	<ul style="list-style-type: none"> • All of the homecare and other material accruals will be based on the YTD expenditure trend, with adjustments made for exceptional in-year items. • Senior finance review of material estimates. • Using third party evidence and confirmations where possible.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	<ul style="list-style-type: none"> • Guidance and advice provided by advisors/external consultants and reviewed by SFAs & HoF against the Accounting Code of Practice. • The Chief Accountant's team also provide technical guidance and training to the finance team
12. How is the Audit and Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through this 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?
Land and buildings valuations	Our assets are revalued on a 5 years rolling basis. The revaluations are done by the external valuers Wilks, Heads and Eve. Operational assets are valued at existing use value, specialised assets are revalued at depreciated replacement cost and surplus assets are revalued at fair value. Our external valuers also provides a market review/indexation review report each year.	External valuers are used to provide estimates. These are then reviewed and where necessary challenged by Property experts in the Council's Property team	Yes - external valuers for the valuation. Also external surveyor where required.	Uncertainty for valuation is inherent. However our valuers' estimates are expert opinions based on best available estimates and in compliance with the CIPFA Code and the Statement of Asset valuation principles and guidance notes issued by the Royal institute of Chartered Surveyors (RICS). These estimates are also reviewed and were necessary challenged by our in house Valuers/experts	No
Council dwelling valuations	Our assets are revalued on a 5 years basis. The revaluations are done by the external valuers Wilks, Heads and Eve. Council dwellings are valued using the beacon principle and at existing use value- social housing. Our external valuers also provides a market review/indexation review report each year.	External valuers are used to provide estimates. These are then reviewed and where necessary challenged by Property experts in the Council's Property team	Yes- external valuers for the valuation and UEL estimation	Uncertainty for valuation is inherent. However our valuers' estimates are expert opinions based on best available estimates and in compliance with the CIPFA Code and the Statement of Asset valuation principles and guidance notes issued by the Royal institute of Chartered Surveyors (RICS). These estimates are also reviewed and were necessary challenged by our in house Valuers/experts	No
Investment property valuations	N/a	N/a	N/a	N/a	N/a
Depreciation	Straight line depreciation. Useful economic life (UEL) range as per our Brent policy of: Buildings (including HRA) 5 – 60 years as determined by the valuer Infrastructure – based on expert review Plant, Vehicles, Equipment & Machinery Up to 10 years Community Assets Not depreciated where held at nominal value. Land is not depreciated.	Buildings are the material items on our Property, plant and equipment. Their valuation and UEL are determined by our external valuers	Yes- external valuers for the valuation and UEL estimation	Uncertainty for valuation is inherent. However our valuers' estimates are expert opinions based on best available estimates and in compliance with the CIPFA Code and the Statement of Asset valuation principles and guidance notes issued by the Royal institute of Chartered Surveyors (RICS). These estimates are also reviewed and were necessary challenged by our in house Valuers/experts	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	Asset valuations are provided by Northern Trust, the Fund's custodian on a monthly basis.	Estimates are provided by the Fund custodian Northern Trust	Yes - Northern Trust	Uncertainty for valuation is inherent for more illiquid asset classes. Estimates provided at fair value in line with the CIPFA code.	No
Fair value estimates	Fair values are estimated as the price the lender would receive to sell the loans to another market participant on 31st March, based on observed market rates for similar transactions. Fair values include accrued interest for 31st March to enable direct comparison with the amortised cost.	Estimates provided by our Treasury Management Advisor for greater accuracy and sector knowledge.	Yes - information provided by our Treasury Management Advisors Arlingclose	Not able to use any other method for fair value estimation.	No
Provisions	Calculated using the value of liability declared on summary forms by the Council's legal team.	Monitoring of rent collection rates in year and prior years' trends Legal Department's advice on legal cases if any Finance ask the legal department to complete a summary form for each matter which includes the value of the liability, information on the matter and actions being taken to resolve.	Advice of the collective for the water charges case The Council's in-house legal team	"Assume YTD expenditure trend continues for accrual period Assume that prior years' income collection rates will apply Legal claims are inherently uncertain and the liability will depend on the outcome. A probability of success is used to calculate the provision.	Calculated using the value of liability declared on summary forms by the Council's legal team.
Income & Expenditure Accruals	Accruals based on YTD expenditure and any known future liabilities and receivables not yet invoiced	No	Assume YTD expenditure trend continues for accrual period	No	Accruals based on YTD expenditure and any known future liabilities and receivables not yet invoiced

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	The allowances are calculated based on historic trends of performance, ongoing forecasting and the impact this may have on possible future collection rates on debts.	Historic trends and forecast information.	Not currently used however we may use external consultants to give us advice where needed	Assumption on the creditworthiness of a local authority who may be involved in the transaction based on guidance by credit rating agency.	No
Finance lease liabilities	<p>Finance lease repayments and interest payments are calculated using the actuarial method (allocating interest to the period it relates to) and assumes that a single payment is made at the end of the contract year.</p> <p>Rentals payable under operating leases are charged to revenue in the year in which they are paid and no provision is made for outstanding lease commitments.</p>	<p>Finance ask the properties team to provide information on any new leases in/out and review each of the current leases and provide information of any changes such as rent, lease duration and risks associated with the lease.</p> <p>We also have a lease accounting Model in regards to controls used to identify estimates.</p>	<p>We used Arlingclose for accounting Advice in regards to new finance lease that has been entered into this financial year.</p> <p>Arlingclose also provide generic advice on how to account for leases and have provided guidance for understanding the impact of IFRS 16.</p>	The Council assesses whether or not leases have to be disclosed on balance sheet in line with IAS 17, using guidance from the Royal Institute of Chartered Surveyors as directed by the CIPFA. Where the terms of the lease transfer substantially all the risks and rewards incidental to ownership leases are recorded on balance sheet as finance leases, other leases not reported on the balance sheet are known as operating leases.	No
PFI Liabilities	<p>The Liabilities are set out at the start of the PFI arrangements, depending on the agreement. It would be linked to the valuation of the asset received by the council.</p> <p>There is a fixed schedule to reduce the liability over the lifetime of the PFI, to reflect the payments made by the council.</p>	Accounting Model designed to help with the understanding	The Council would have used external PFI experts to agree and design the Accounting model.	There are no changes in accounting standard otherwise the liabilities that are set out at the beginning of the contract will have to change.	No



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