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Report to Audit Committee	Agenda Item: A.3

Meeting Date:	8 July 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	Yes
Public / Private	Public

Title:	DRAFT STATEMENT OF ACCOUNTS 2020/21 – UPDATE REPORT
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD 17/21

Purpose/Summary:
The report provides a brief summary of the progress on the 2020/21 accounts and informs the Committee of the outstanding work that still needs to be completed before the draft accounts for 2020/21 can be published.

This report also provides information regarding use of estimates in the preparation of the 2020/21 draft Statement of Accounts in line with enhanced requirements of ISA540 – Auditing Accounting Estimates and Related Disclosures, that requires auditors to understand and assess an entity’s internal controls over accounting estimates.

Recommendations:
Members are asked to note current position on the 2020/21 accounts and to confirm that the Committee has been appropriately briefed on how accounting estimates are used.

Tracking

Audit Committee:	**8 July 2021**

1. 2020/21 DRAFT STATEMENT OF ACCOUNTS

1.1 The revised Accounts and Audit (Amendment) Regulations 2021 reflect the changes of the MHCLG consultation on revised dates for publishing and auditing the Statement of Accounts for 2020/21 and 2021/22. The new requirements changed the fixed period for public inspection (previously the first 10 working days of June) to start on or before the first working day of August and therefore the unaudited accounts must be published at the latest by 31 July.

1.2 At the time of writing, the Draft Accounts were progressing well, and all entries required to pull the accounts together were made. The draft accounts are therefore on schedule to be published in July, after which, they will be subject to an audit process. The revised regulations state that the audited accounts should be completed by 30 September. We are liaising closely with the auditors to establish a timetable and plan for the audit process.

2. ACCOUNTING ESTIMATES

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

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

2.2 As part of this process auditors also need to obtain an understanding of the role of those charged with governance (which for the Council is the Audit Committee), 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?

2.3 Therefore it is important that the Audit Committee is able to satisfy itself that the arrangements for accounting estimates are adequate. The table at **Appendix A** details the main areas where Accounting Estimates are used, and the considerations made by Officers in using the estimation techniques applied in the accounts preparation process. The main areas where estimations are used are:

- Land and Building Valuations
- Investment Property Valuations
- Depreciation
- Fair Value Estimates (Financial Instruments and Investment Property)
- Pension Valuations
- Provisions – Business Rate Appeals Provisions, Bad Debt Provisions

The use of estimates was also considered and explained at the recent Member training on Statement of Accounts held on 2nd July.

3. RECOMMENDATIONS

Members are asked to note current position on the 2020/21 accounts and to confirm that the Committee has been appropriately briefed on how accounting estimates are used.

Contact Officer:	**Steven Tickner**	**Ext: 7280**
Appendices attached to report:	**Appendix A – Use of Accounting Estimates 2020/21**	

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS:

LEGAL - The Audit Committee's terms of reference require it to consider the Council's compliance with its own and other published standards and controls and to consider whether appropriate accounting policies have been followed.

PROPERTY SERVICES - The statement of accounts include the valuations of the Councils assets. The Valuation process to provide the value of the assets is carried out by property services in conjunction with external expert valuers.

FINANCE – contained within body of the report

EQUALITY – none

INFORMATION GOVERNANCE – none

Appendix A

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Significant accounting estimates will be: IAS 19 figures (Pensions) Asset valuations (including investment property and heritage assets), depreciation and impairments Fair value of financial instruments Provision for business rate appeals General debtor/ creditor accruals (estimation will not be material - generally based on invoice amounts) Pension assets and liabilities
2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?	The preparation of the accounts is monitored through the financial services operational risk register
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Through the use of specialists in terms of financial instruments, asset valuations and pensions. The Code of Practice is also referenced for any changes required to accounting estimates, and attendance at year-end closedown courses by key staff also helps to identify areas where estimates may be subject to change.
4. How do management review the outcomes of previous accounting estimates?	Through the external audit process, through the attendance at training events and through maintaining knowledge of key sector updates in key CIPFA publications such as the Code of Practice.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Asset valuations have been thoroughly revalued as part of the 19/20 accounts with a new valuer taken on board following identification of issues with the previous valuations. The same valuer has been used for the 2020/21 accounts closedown process. There have been no changes made to estimation processes or methodologies.

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Through the requirements of the Code and the assessment of knowledge within the Finance Team. Specialist areas such as pensions and asset valuations are material items where specialist knowledge is required.
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?	Through assessment of the nature of the estimate, e.g. asset valuations and pensions. Using external valuers then requires an internal cross-checking exercise and validation exercise to be carried out to ensure that the provided information is relevant and accurate.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Through validation exercises and meetings with key experts
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Management oversee the production of all entries relating to accounting estimates. Accruals are authorised by either the Principal Accountant, Financial Services Manager or the Corporate Director. This will include review of any working papers and evidence associated with accruals. For other accounting estimates, management liaise with appropriate teams, e.g. property, County Council Pensions or Treasury Advisors to query and understand the judgements made in the assumptions in arriving at any estimated figures. The financial statements are primarily prepared by the Principal Accountant and Financial Services Manager and therefore close scrutiny of estimates is contained to these two posts to ensure data quality.

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Those covered at Appendix A will be of most relevance to the Council. Any other events or transactions that arise would be picked up through the preparation of the accounts ensuring that any changes or new transactions are included.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes – the arrangements have been in place for a number of years and are appropriate to the material items stated in the accounts where accounting estimates are necessary.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Audit Committee are kept up to date with the process for the final accounts preparation, see early sight of accounting policies and are notified of any significant changes affecting the preparation of the accounts. If necessary, between meetings the Committee can be made aware of any changes that would affect the accounts

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	External Valuers are used along with information provided by the Council's property team	Internal property team validate the information provided Finance section also raise queries on the movement of asset values and the use of indices	Yes	Valuation uncertainty due to COVID related impact on asset valuations is included in the valuation report provided by the valuer. Uncertainty estimates are included in the accounts and the potential impact they have e.g. what a % variance in asset values means	No
Investment property valuations	External Valuers	Internal property team validate the information provided	Yes	Valuation uncertainty due to COVID related impact on asset valuations is included in the valuation report provided by the valuer. Uncertainty estimates are included in the accounts and the potential impact they have e.g. what a % variance in asset values means	No
Depreciation	Asset valuation divided by asset life. Assets are depreciated on a straight line basis	Asset register and valuation information provided by valuer	No	Accurate to the point that asset valuations and asset lives provided by valuers are correct. Valuers are experts to be able to provide accurate estimates of asset lives and asset values to determine the appropriate depreciation charge for the consumption of that asset. Other depreciation methods (e.g. reducing balance) could be used however as assets are	No

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?
				valued every year, the current method is deemed more representative	
Valuation of defined benefit net pension fund liabilities	Pension Fund Actuary provides information based on Council's contributions in year	Council contributions / deductions are reconciled to ledger and provided to Fund Actuary to carry out the valuation exercise	Yes – Pension Fund Actuary	Uncertainty around asset values, assumptions on mortality etc will impact the calculations. Sensitivity analysis is provided for variations in assumptions Actuary uses standard assumptions such as mortality, inflation, wage increases, pension increases, discount rates	No
Fair value estimates	Fair Value estimates for Investment properties are included in the valuation process highlighted above. Fair Value estimates for financial instruments are provided through Treasury advisors who prepare valuations Measurements are based on IFRS13 (Fair Value Measurements) requirements	Financial instruments held at the balance sheet date including, Investment property, financial assets and financial liabilities. All are reconciled back to actual balances and assets owned on that date	Yes Link Asset Services for Financial Instruments RICS valuer for Investment Properties	Financial Assets are measured at comparable market rate on date of valuation, therefore decreasing the uncertainty risk. Similarly with Financial Liabilities, measurement is at the new loan rate at the balance sheet date thereby decreasing the risk of uncertainty	No

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?
Level 2 investment's	Valuation hierarchy is defined per IFRS13	Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly	Yes		No
Level 3 investment's	Valuation hierarchy is defined per IFRS13	Where an asset is categorised within Level 3, quantitative information about significant unobservable inputs used in the Fair Value measurement and a description of the sensitivity of the Fair Value measurement to changes in unobservable inputs, if a change to those inputs might result in a significantly higher or lower Fair Value	Yes	Sensitivity is provided by the valuer, but there is a recognition that the valuations provided are subject to a higher degree of uncertainty depending upon underlying market and economic conditions. Valuers judgement is also relied upon to carry out the valuations in line with the requirements of the RICS manual and IFRS13	No

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?
		measurement, together with a statement of the effect of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions if this would change the Fair Value significantly is required.			
Provisions – NDR Appeals	In-house information that is collated from VOA information on submitted appeals and stage appeals are at. Historical success rate also factored into the equation for calculating potential refunds	Prepared by Business Rates Team and assumptions and calculations checked by finance	No	Will be degree of uncertainty when providing for an appeal that may not be successful and which may not follow historical trends	No
Accruals (if any are material)	Determined on most accurate information available and	Backing evidence to corroborate calculation	No	If based on available evidence there will be a lesser degree of uncertainty	No

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?
	substantiated with evidence as to calculation			In most circumstances accruals are based on available evidence of an actual charge/receipt. Where estimates are used these will be verified through an appropriate calculation with an appropriate working paper.	
Credit loss and impairment allowances	Bad Debt Provisions are calculated with consideration to the outstanding debts, amounts written off. Estimates are then made on the likelihood of collection which is based on historical trends of debt collected and age of debts	Outstanding debt balances, age of debts and historical write offs are used to calculate an appropriate provision	No	Consideration of outstanding debts and the likelihood of collection alongside historical success of collection of debts. Provisions are calculated by applying a % of outstanding debts at different debt ages. Greater % of provision is required for older debts that have been outstanding for longer	No