

# Informing the audit risk assessment for the London Borough of Hammersmith and Fulham Council and Pension Fund 2020/21

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## Purpose

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

## Background

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

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

## Communication

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

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

## Purpose

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

# General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The 2020/21 financial year has been dominated by the Covid-19 pandemic and the local and national response to it. This will affect both income and expenditure and valuation of assets.
2. Have you considered the appropriateness of the accounting policies adopted by the London Borough of Hammersmith and Fulham Council and Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes – the Council has reviewed the accounting policies; there have been no events or transactions that have given cause for significant change.
3. Is there any use of financial instruments, including derivatives?	Yes – as set out in the Financial Instruments note to the Accounts (both the Council and Pension Fund) – activity in 2020/21 is broadly similar to that of previous years and there are no derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	In 2020/21 the Authority undertook, or was the recipient of, numerous transactions pursuant to the Covid-19 pandemic response.

## 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?	The impact of the Covid-19 pandemic continues to be closely monitored. Assets have been valued with due regard to the pandemic and in accordance with RICS or other industry guidelines.
6. Are you aware of any guarantee contracts?	We are not aware of any material guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The Council is not aware of the existence of any significant loss contingencies and/or un-asserted claims that may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the London Borough of Hammersmith and Fulham Council and Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has an internal Legal Department, supported by third parties which are commissioned where necessary – contact details will be provided to the auditor.

## General Enquiries of Management

Question	Management response
<p>9. Have any of the London Borough of Hammersmith and Fulham Council's or Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>Whilst some instances of fraud have been reported in year (see later response) there is nothing, to the best of management's knowledge, which materially affected the Council's financial statements.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Link Asset Services - The Council has consulted with Link who have provided treasury advice and in relation to general treasury investment.</p> <p>PwC – The Council subscribes to a tax advice helpline for provision of advice regarding indirect taxation (typically VAT and SDLT).</p> <p>Wilks Head &amp; Eve and Lambert Smith Hampton – property valuation</p> <p>Analyse Local – Collection Fund provisions</p> <p>Barnett Wadingham – Pension Fund Actuary</p> <p>Deloitte - Pension Investment Advisors</p> <p>Major capital and regeneration projects typically require procurement of professional advice concerning, amongst other things (and as relevant), legal and property consultation etc. Details are available from relevant services and project managers.</p>



# Fraud

## Issue

### Matters in relation to fraud

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

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

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

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

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

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

# Fraud risk assessment

Question	Management response
<p>1. Have the London Borough of Hammersmith and Fulham Council and Pension Fund 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 and Pension Fund's risk management processes link to financial reporting?</p>	<p>Yes, the risk has been considered.</p> <p>The Council operates a Corporate Anti-Fraud Service (CAFS). It consists of trained managers, investigators and intelligence officers who investigate allegations of fraud against the Council, or who undertake pro-active fraud reviews (similar to audits) of Council services. The Committee receives detailed reports from the anti-fraud service every six months.</p> <p>The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process.</p> <p>Over the past year, the Anti-bribery and Corruption Policy, Anti-Money Laundering Policy, Fraud Response Plan have been reviewed and are refreshing the risk assessment to inform our work.</p> <p>For the period 1 April 2020 to 31 March 2021, CAFS identified 93 positive outcomes, including 18 recovered tenancies. Fraud identified has a notional value of over £750,000.</p> <p>A comprehensive risk register is maintained by the Council and is reviewed each quarter. This risk registers consider all risks including fraud. A risk update report is presented to the Audit Committee each quarter and as an annual risk report, covering the councils risk strategy and management action.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Council has a robust framework of internal controls and effective processes and policies to prevent; fraud, bribery, money laundering etc. However, there are always areas within any organisation that are at risk of fraud. As part of the preparation of the annual audit plan, a fraud risk assessment is carried out to ensure that those areas of high risk are included. These areas include procurement, employee fraud, and tenancy fraud. Other areas of risk to fraud are Right to Buy, NNDR, Council Tax (Single Payer Discounts), Blue badges and Freedom passes, all of which are subject to audit reviews.</p> <p>The Council has continued to review new and emerging fraud risks, including those related to the Covid-19 pandemic. Covid-19 business grants were assessed to be an emerging risk area, and robust pre-assurance checks were provided for the various streams of government grant funding provided for distribution to local business and the various discretionary schemes where businesses had to apply to submit evidence of hardship to obtain a grant.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the London Borough of Hammersmith and Fulham Council and Pension Fund as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2021 which is considered by Strategic Leadership Team Assurance meetings and presented to the Audit Committee:</p> <p><a href="#">CAFS report</a></p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the London Borough of Hammersmith and Fulham Council and Pension Fund where fraud is more likely to occur?</p>	<p>Certain areas will be susceptible to increased risk of fraud as set out in the response to question 2, above. The Council reports fraud risks and detected instances of fraud through the periodic fraud reporting to the Audit Committee.</p>
<p>5. What processes do the London Borough of Hammersmith and Fulham Council and Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>The Council operates a Corporate Anti-Fraud Service (CAFS). It consists of trained managers, investigators and intelligence officers who investigate allegations of fraud against the Council, or who undertake proactive fraud reviews (similar to audits) of Council services. The Committee receives detailed reports from the anti-fraud service every six months.</p> <p>The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process.</p> <p>Over the past year, the Anti-bribery and Corruption Policy, Anti-Money Laundering Policy, Fraud Response Plan have been reviewed and are refreshing the risk assessment to inform our work.</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the London Borough of Hammersmith and Fulham Council and Pension Fund, 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)?</p>	<p>Internal controls, including segregation of duties, are in place and these controls are reviewed regularly as part of the work carried out by Internal Audit and the Corporate Anti-Fraud Service (CAFS).</p> <p>The majority of transactional finance services are carried out at Hampshire Integrated Business Centre which has in built system controls and provides separation of duties from Council officers. The Council receives a ISAE 3402 Type 2 Report on the suitability, design and operating effectiveness of controls at the IBC and also an annual confirmation from the IBC of their awareness of any fraud. Other internal controls are in place for transactions processed within the Council.</p> <p>Not applicable – internal controls are in place.</p> <p>The other controls in place in place include access control, supervisor review/authorisation, reconciliation, training and policies and procedures.</p> <p>No</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No</p>

## Fraud risk assessment

Question	Management response
<p>8. How do the London Borough of Hammersmith and Fulham Council and Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Council publishes guidance for staff for identifying and reporting suspected fraud. This includes a dedicated and anonymous 'whistleblowing' process. The guidance is published both on the council internet and intranet pages Staff are expected to report any suspected fraud or irregularity.</p> <p>For a summary of activity and issues reported please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2021: <a href="#">here</a></p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>There will, naturally, be posts which are at a higher risk of fraud and corruption than others; these will typically be posts which:</p> <ul style="list-style-type: none"> <li>• are involved in the granting of financial aid, relief and benefits etc.</li> <li>• have access and authority to set up new customers and access to cash and bank accounts</li> <li>• have responsibility for the award of significant contracts</li> </ul> <p>We have a variety of specific controls in place including separation of duties, access control and independent reconciliation for the areas highlighted. In addition, global controls include the governance structure (as set out in the constitution), the Corporate Revenue and Capital monitoring processes and anti-bribery and anti-fraud policies. Procedures are regularly reviewed and internal controls tested and assessed through the internal audit process to ensure that they are sound enough to prevent or detect fraud insofar as is possible.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>The risks are mitigated by the annual declaration and examination of these relationships and transactions in the Statement of Accounts.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>Fraud risks and outcomes are reported to Audit Committee on a six-monthly basis. The Director of Internal Audit and Fraud has the ability to report directly to the Chair of the Audit Committee or the Chief Executive where appropriate.</p> <p>A comprehensive risk register is maintained by the Council and is reviewed each quarter. This risk registers consider all risks including fraud. A risk update report is presented to the Audit Committee each quarter and as an annual risk report, covering the Council's risk strategy and management action.</p> <p>Please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2021: <a href="#">CAFS report</a></p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Please see the Corporate Anti-Fraud Service performance report for the year ending 31 March 2021: <a href="#">CAFS report</a></p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No reports have been made under the Bribery Act in 2020/21.</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

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

Management, with the oversight of the Audit Committee, is responsible for ensuring that the London Borough of Hammersmith and Fulham Council's and Pension Fund'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 Transparency Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

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

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the London Borough of Hammersmith and Fulham Council and Pension Fund 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 or Pension Fund's regulatory environment that may have a significant impact on the Council's or Pension Fund's financial statements?</p>	<p>Policies and procedures are established across the organisation to ensure compliance with laws and regulations. This includes an Employee and Members Code of Conduct. These are available via the Council's intranet.</p> <p>All decision reports require legal implications to be completed which include compliance with laws and regulations. The Council has an in house legal team and a Monitoring Officer who considers legality, conduct and the proper operation of the Council's constitution and governance arrangements. The Monitoring Officer is part of the Strategic Leadership Team.</p> <p>Management are not aware of any changes to the Council's or Pension Fund's regulatory environment that may have a significant impact on the Council's or Pension Fund's financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Fraud risks and outcomes are reported to Audit Committee on a six-monthly basis. The Director of Internal Audit and Fraud has the ability to report directly to the Chair of the Audit Committee or the Chief Executive where appropriate.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>Not to management's knowledge.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>There are no material litigations, claims or contingent liabilities which may affect the financial statements.</p>



## Impact of laws and regulations

Question	Management response
5. What arrangements does the London Borough of Hammersmith and Fulham Council and Pension Fund have in place to identify, evaluate and account for litigation or claims?	The Council's Legal Services are provided the legal team. They review outstanding litigation and correspondence to identify to assess the likelihood and quantum of outstanding and potential claims. The Council's Finance Board are also asked to disclose any litigations and claims they are aware of as part of year-end out-turn processes.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

# Related Parties

## Issue

### Matters in relation to Related Parties

The London Borough of Hammersmith and Fulham Council and Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the London Borough of Hammersmith and Fulham Council and Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council or Pension Fund;
- 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 Pension Fund, or of any entity that is a related party of the Council or Pension Fund.

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 or Pension Fund's perspective but material from a related party viewpoint then the Council or Pension Fund must disclose it.

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

# Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in the London Borough of Hammersmith and Fulham Council's and Pension Fund'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 the London Borough of Hammersmith and Fulham Council and Pension Fund</li> <li>whether London Borough of Hammersmith and Fulham Council and Pension Fund 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>There have not been any significant changes from the previous year.</p>
<p>2. What controls does the London Borough of Hammersmith and Fulham Council and Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All members complete a declaration of pecuniary interests under the Localism Act 2011 and the Code of Conduct (adopted July 2012) and it is the responsibility of members to inform Legal services of any new interests. The register of interests can be found in the Council's website.</p> <p>As part of the preparation of the financial statements, management also undertake a specific exercise each year to identify related party transactions and relationships and these are disclosed in the Statement of Accounts. Information for this disclosure is gathered from the Council's members and chief officers through a formal process.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Members are required declare and to excuse themselves as necessary from decision making where they have a pecuniary interest (see Declaration of Interest, Section 21 p. 169 of the constitution: <a href="#">Constitution</a>). Internal controls are in place to ensure that finance processes and procedures are followed when a payment is being made, including segregation of duties for authorisation and payment, and invoices are being raised regardless of whether they are related parties' transactions or not.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>To our knowledge, and notwithstanding increased activity as a response to Covid-19, the Council has not engaged in any transactions which could be considered outside the normal course of business. Any significant transaction would however, be captured by standing authorisation processes and limits as set out in the financial procedure rules as part of the constitution.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	There are a number of areas in which estimates require significant judgement, for example: depreciation, valuation of assets, provisions including Business Rate appeals, the recoverability of debtors, pension liabilities, and pension asset values.
2. How does the Council's and Pension Fund's risk management process identify and addresses risks relating to accounting estimates?	The Council and the Pension Fund identifies and assesses the major sources of estimation uncertainties as part of the preparation of the statement of accounts.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Management consider the information available within the Council and information provided by staff and advice of external experts. The approach to significant estimates will form part of discussions at the Council's Finance Board and will be agreed by the Director of Finance.
4. How do management review the outcomes of previous accounting estimates?	Actual outcomes, when available, are compared to estimates to know and understand when estimates are materially different to actuals.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Management will periodically review the need for specialist skills in arriving at accounting estimates. The key areas remain property valuation, financial instrument valuation, assessment of pension liability and estimation of business rate appeals provision and there are established processes in place for obtaining expert advice in these areas.</p>
<p>7. How does the Council and Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Significant estimates are, generally, assessed with the support of external expertise. Consideration of control activities, process, methods and models will form part of the contracting and instruction process. Relevant in-house experts and/or the relevant clienting function will review method statements and outputs etc in concert with corporate finance (and the expert as necessary) prior to the inclusion of estimates in the accounts. Corporate finance undertake reasonableness checks, such as analytical review of outputs and seek explanations for changes as necessary.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>See response to question 7 above.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <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>	<p>See response to question 7 above.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The statements of accounts includes a disclosure on the assumptions made about the future and other major sources of estimation uncertainty which is reviewed by the members of the Audit Committee.

## 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	Assets valued in accordance to CIPFA Accounting Code of Practice and RICS regulations . The Valuer has arrived at their opinion of Current Value and Fair Value from referring to recent comparable market transactions. For specialised properties, the Current Value has been derived using Depreciated Replacement Cost methodology.	Valuation Procedure Note 2020-21 provides detailed guidance on asset selection, appropriate valuation methodologies used and roles and responsibilities for the year-end asset valuation process. Valuation and Property Services officers ensure accuracy and integrity of the property data kept on TechForge (site plans, rental income , lease and tenure information) by performing regular reviews and reconciliations. TechForge property data is annually reconciled with the Corporate Asset Register. All year-end valuation reports are reviewed by the Corporate Finance and Valuation and Property Services officers to ensure that any material fluctuations in the property values are queried with the external valuers who performed the valuations.	Yes, external valuers Wilks, Head & Eve (WHE)	In line with the general consensus across the valuation profession , it was recognised that the presence of Coronavirus pandemic over the period could have an unexpected change in market conditions or other circumstances and as such this gave rise to minor remodelling of the valuation assumptions and processes of some of the assets . Impact of COVID-19 and Brexit have been considered by Wilks, Head & Eve in their revaluation report especially with the regards to retail and specific trading related assets/sectors such as Car Parks .These assets were classified as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of these valuations less certainty – and a higher degree of caution – was attached to their valuation than would normally be the case. For more detail regarding the assumptions made in valuations, please refer to the valuation year-end certificates issued by WHE.	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	Assets valued in accordance to CIPFA Accounting Code of Practice, RICS regulations and 'Stock Valuation for Resource Accounting Guidance for 2016'. Issued by MHCLG using Existing Use Value – Social Housing (EUV-SH) method of valuation	Please see previous for land and buildings	Yes, external valuers Wilks, Head & Eve	WHE valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards, except as identified above. Componentisation of dwellings using structure, externals, roof and M&E as major components was applied. Dwellings stock valued on beacon basis. For more detail regarding the assumptions made in valuations, please refer to the valuation year-end certificates issued by WHE.	No
Investment property valuations	Assets valued in accordance to CIPFA Accounting Code of Practice and RICS regulations, using Fair Value as a method of valuation.	Please see the above for land and buildings	Yes, external valuers Wilks, Head & Eve	Please see the above for land and buildings. In addition, Fair Value hierarchy was applied the investment properties' valuations, as required by IFRS 13.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Straight line method using opening Gross Book Value (GBV) of depreciable element of the asset over estimated Useful Expected Life (UEL)	Working papers containing calculated depreciation charges for the year are distributed to the departments for a review prior to posting on the ledger to ensure they are within their expectations but also to check that the cost centres for the charges are accurate.	Corporate Capital accountant in liaison with project management to determine UELs of non- property related assets . Property related assets' GBV and UELs are determined by the external valuers as a part of year-end valuations	For the assets in value over £5m which are not componentised in our fixed asset register, the external valuer is asked to value each material component separately. The Corporate Finance use this information to recalculate depreciation charges based on componentisation and to assess if there is any material difference between the depreciation charged on the asset as whole and the depreciation charge for the componentised asset. This exercise was carried out in 2020/21 and no material difference in depreciation charges was noted. Depreciation is calculated in line with the accounting policy.	No

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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	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	Officers challenge methods provided and agree reasonableness of estimates. The Strategic Investment Manager asks for confirmation of any significant movements in valuation assumptions, and the reasons why.	Yes – Actuary Barnett Waddingham	<p>Actuary using financial assumptions that comply with IAS26.</p> <p>The structure of the liabilities is substantially the same as at the latest formal valuation.</p> <p>CPI assumption. Salaries are assumed to increase at 1.0% p.a. above CPI.</p> <p>Sensitivity analysis is undertaken on major assumptions (appendix 3 IAS 26).</p>	No

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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 investments	Where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.	Officers maintain constant dialogue with the custodian and fund managers. Monitoring of asset valuations forms part of the quarterly performance report which is taken to Pension Fund Committee every quarter. The Fund takes professional advice in relation to investments/asset allocation in response to the funding level.	The Pension Fund contracts the custodian, Northern Trust, to undertake accounting notes for the Fund, this includes levelling. Officers also liaised with the Fund Managers on the levelling process and the most appropriate classification for that asset class.	Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.	No

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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 3 investments, including directly held property	Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data, such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in. These funds are valued according to non-exchange based market valuations. As a result of this, the final realised value of investments may differ slightly from the valuations resented in the accounts.	Officers maintain constant dialogue with the custodian and fund managers. Monitoring of asset valuations forms part of the quarterly performance report which is taken to Pension Fund Committee every quarter. The Fund takes professional advice in relation to investments/asset allocation in response to the funding level.	The Pension Fund contracts the custodian, Northern Trust, to undertake accounting notes for the Fund, this includes levelling. Officers also liaised with the Fund Managers on the levelling process and the most appropriate classification for that asset class.	Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.	No
Fair value of loans	Loans valued at amortised cost (carrying amount) with a comparative fair value calculation.	Refer to Link report enclosed.	Yes	N/A	No

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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?
NNDR appeals provision	Detailed analysis of information on rateable values	The Analyse Local estimation model has been rigorously tested during development by comparison to previously settled proposals and appeals.	Yes	Alternative estimates were not considered.	No
Significant accruals	Significant accruals are mostly based on documentary evidence and where this is not available, an analytical calculation is done to arrive at the appropriate accrual.	Documentary evidence or analytical calculation.	No	Alternative estimates were not considered.	No
Credit loss and impairment allowances	Historic risk of default	Regular reporting	Yes	N/A - no accounting entries made due to small value.	No



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