

# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS & AUDIT COMMITTEE

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DECISION

meeting date: 17 NOVEMBER 2021  
title: INFORMING THE AUDIT RISK ASSESSMENT  
submitted by: DIRECTOR OF RESOURCES  
principal author: LAWSON ODDIE

## 1 PURPOSE

- 1.1. To inform members of the material accounting estimates made and the methods employed in arriving at the values used in the statement of accounts. The report asks members to endorse the processes followed in arriving at such estimates.
- 1.2. Additionally, included under this item is a report from Grant Thornton that covers some important areas of the auditor risk assessment where there is a requirement to make inquiries of the Accounts and Audit Committee under auditing standards.
- 1.3. Relevance to the Council's ambitions and priorities:
  - Community Objectives – none identified.
  - Corporate Priorities – assessing the Council's system of internal control contributes to the achievement of the corporate priority of being a well-managed Council.
  - Other Considerations – none identified.

## 2 BACKGROUND

- 2.1. The Financial Reporting Council issued an updated ISA (UK) 540 (Revised): Auditing Accounting Estimates and Related Disclosures, which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.
- 2.2. Our external auditors, Grant Thornton, are required to understand and assess our internal controls over accounting estimates.
- 2.3. They are also required to obtain an understanding of the role of this committee, particularly where estimates have a high estimation uncertainty, or require significant judgement. Specifically do Accounts and 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.
- 2.4. An assessment of our significant estimates is included at Annex 1 and covers significant estimates in respect of Pensions and Property Plant and Equipment. Members are asked to endorse the approaches followed.
- 2.5. Looking at the auditor risk assessment element of this report, under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Accounts and Audit Committee. ISA(UK) emphasises the importance of two-way communication between the auditor and the Accounts and Audit Committee and also specify matters that should be communicated.

- 2.6. This two-way communication assists both the auditor and the Accounts and 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 Accounts and Audit Committee and supports the Accounts and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.
- 2.7. The document is attached at Annex 2 to this report and covers a variety of areas and members are asked to acknowledge the responses made.

### 3 RISK ASSESSMENT

3.1 The approval of this report may have the following implications:

- Resources – the estimation techniques followed have an impact on the values queried in the statement of accounts.
- Technical, Environmental and Legal – None identified
- Political – None identified
- Reputation – External specialised skills have been sought in reaching these estimates where necessary
- Equality & Diversity – None identified

### 4 RECOMMENDED THAT COMMITTEE

- 4.1 Endorse the approaches followed in respect of significant estimates as detailed in Annex 1 of the report; and
- 4.2 Acknowledge the responses made to the Grant Thornton document '*Informing the audit risk assessment for Ribble Valley Borough Council 2020/21*'

HEAD OF FINANCIAL SERVICES

DIRECTOR OF RESOURCES

AA20-21/LO/AC  
8 November 2021

BACKGROUND PAPERS

None

For further information please ask for Lawson Oddie

# Significant judgement /estimate – Ribble Valley Borough Council

31<sup>st</sup> March 2021

Prepared by *Lawson Oddie – Head of Financial Services*

## Requirements

IAS 1.122-124 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying accounting policies that have the most significant effect on the amounts recognised in the financial statements.

IAS 1.125-133 requires disclosure of information about the assumptions the entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

For entities reporting under UK GAAP, FRS 102.8 details disclosure requirements:

FRS102.8.6 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

FRS102.8.7 An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- a. their nature; and
- b. their carrying amount as at the end of the reporting period.

## Judgement or estimate?

Judgement

Estimate

## Identify the judgement/estimate

*Pensions: Net liability arising from defined benefit obligation*

## Explain the nature of the judgement/estimate

*There are several areas of uncertainty that can impact on the calculation of the net liability. Those that have been specifically identified by the actuary are in respect of:*

- *Discount Rate*
- *Inflation*
- *Pay Growth*
- *Life Expectancy*
- *Investment Returns*

**What are the key sources of estimation uncertainty for each area identified?**

*Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.*

*There have been substantial falls in equity markets in relation to the Covid-19 pandemic resulting in a reduction in asset values for accounting purposes.*

*Mercer Limited are the actuaries for the Lancashire County Pension Fund and have identified the key areas of sensitivity.*

**Identify the carrying amounts of assets or liabilities identified as being subject to key sources of estimation uncertainty**

*The Pension Fund Deficit for Ribble Valley at 31 March 2021 was £21.042m (£14.971m 31 March 2020)*

**Document (and quantify) the effect on the financial statements**

*The effect of the estimation is an increase in the Pension Fund Deficit of £6.071m from 31 March 2020 to 31 March 2021*

**For judgements, explain any alternatives that were considered.**

*Not Applicable - Estimation*

**Calculate sensitivities and ranges of outcomes**

		5. Sensitivity analysis as at 31 March 2021						Page 6
		Central	Sensitivity 1	Sensitivity 2	Sensitivity 3	Sensitivity 4	Sensitivity 5	
Disclosure item	£000s	+ 0.1% p.a. discount rate £000s	+ 0.1% p.a. inflation £000s	+ 0.1% p.a. pay growth £000s	1 year increase in life expectancy £000s	+/-1% change in 2020/21 investment returns £000s		
						+1%	-1%	
Liabilities	79,476	78,211	80,762	79,624	81,872	79,476	79,476	
Assets	(58,434)	(58,434)	(58,434)	(58,434)	(58,434)	(59,015)	(57,853)	
Deficit/(Surplus)	21,042	19,777	22,328	21,190	23,438	20,461	21,623	
Projected Service Cost for next year	1,981	1,938	2,029	1,981	2,046	1,981	1,981	
Projected Net Interest Cost for next year	432	425	460	438	483	420	444	

## Draft disclosures to include in current period financial statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>There have been substantial falls in equity markets in relation to the Covid-19 pandemic resulting in a reduction in asset values for accounting purposes.</p>	<p>Mercer Limited are the actuaries for the Lancashire County Pension Fund. The Pension Fund Deficit for Ribble Valley at 31 March 2021 was £21.042m. The following sensitivity analysis is provided by Mercer Limited:</p> <ul style="list-style-type: none"> <li>• <b>+0.1% p.a. discount rate as at 31 March 2021:</b> deficit would be £19.777m</li> <li>• <b>+0.1% p.a. inflation as at 31 March 2021:</b> deficit would be £22.328m</li> <li>• <b>+0.1% p.a. pay growth as at 31 March 2021:</b> deficit would be £21.190m</li> <li>• <b>1-year addition to members' life expectancy as at 31 March 2021:</b> deficit would be £23.438m</li> <li>• <b>+1% change in 2020/21 investment returns:</b> deficit would be £20.461m</li> <li>• <b>-1% change in 2020/21 investment returns:</b> deficit would be £21.623m</li> </ul>

## Disclosures included in current period financial statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>There have been substantial falls in equity markets in March 2020 in relation to the COVID-19 pandemic resulting in a reduction in asset values for accounting purposes.</p>	<p>Mercer Limited are the actuaries for the Lancashire County Pension Fund. The Pension Fund Deficit for Ribble Valley at 31 March 2020 was £14.971m. The following sensitivity analysis is provided by Mercer Limited:</p> <ul style="list-style-type: none"> <li>• <b>+0.1% p.a. discount rate as at 31 March 2020:</b> deficit would be £13.884m</li> <li>• <b>+0.1% p.a. inflation as at 31 March 2020:</b> deficit would be £16.076m</li> <li>• <b>+0.1% p.a. pay growth as at 31 March 2020:</b> deficit would be £15.108m</li> <li>• <b>1-year addition to members' life expectancy as at 31 March 2020:</b> deficit would be £16.812m</li> <li>• <b>+1% change in 2019/20 investment returns:</b> deficit would be £14.434m</li> <li>• <b>-1% change in 2019/20 investment returns:</b> deficit would be £15,508m</li> </ul>

**Judgement or estimate?**Judgement Estimate **Identify the judgement/estimate***Property Plant and Equipment Valuations***Explain the nature of the judgement/estimate***Desktop review of the full asset valuations that were undertaken at the end of the 2019/20 financial year. This review is to ensure that our valuations are reflective of circumstances as at the end of the 2020/21 financial year***What are the key sources of estimation uncertainty for each area identified?***RICS have set up a forum to consider the unique events relating to the global Covid pandemic and its impact on valuation assignments. The latest forum output recommends that, with adequate market evidence and property markets mostly functioning again, the material valuation uncertainty that existed in 2019/20 is less relevant in 2020/21, other than for those assets with trading potential such as hospitality venues. As such the relevance for this council is low at the 31 March 2021 compared to 31 March 2020.**The freehold and leasehold properties, which comprise the Council's property portfolio, were fully revalued on 1 March 2020 by Taylor Weaver Ltd (Alex Taylor BSc MRICS and Neil Weaver MRICS, RICS registered valuers) and Lea Hough & Co Chartered Surveyors (Michael Harrison BSc (Hons) MRICS). The valuations were made in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.**A further desktop exercise is undertaken annually, with asset values adjusted accordingly on the balance sheet. The desktop review as at 1 March 2021 was undertaken by Taylor Weaver Ltd and Lea Hough & Co Chartered Surveyors.***Identify the carrying amounts of assets or liabilities identified as being subject to key sources of estimation uncertainty***The Property, Plant and Equipment valuation for Ribble Valley at 31 March 2021 was £16.884m (£16.960m 31 March 2020)***Document (and quantify) the effect on the financial statements***The effect of the estimation is a net decrease (after depreciation, additions and disposals, together with the desktop revaluation) in the Property, Plant and Equipment valuation of £76,449 from 31 March 2020 to 31 March 2021***For judgements, explain any alternatives that were considered.***Not Applicable - Estimation*

**Calculate sensitivities and ranges of outcomes**

*A variation of 10% in the value of the council's land and buildings would be approximately £1.688m. A reduction would result in a reduction to the revaluation reserve and/or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and/or increases to the revaluation reserve and/or gains charged to the comprehensive income and expenditure statement.*

**Draft disclosures to include in current period financial statements**

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant and Equipment Valuations</b>	RICS have set up a forum to consider the unique events relating to the global Covid pandemic and its impact on valuation assignments. The latest forum output recommends that, with adequate market evidence and property markets mostly functioning again, the material valuation uncertainty that existed in 2019/20 is less relevant in 2020/21, other than for those assets with trading potential such as hospitality venues. As such the relevance for this council is low at the 31 March 2021 compared to 31 March 2020.	A variation of 10% in the value of the council's land and buildings would be approximately £1.688m. A reduction would result in a reduction to the revaluation reserve and/or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and/or increases to the revaluation reserve and/or gains charged to the comprehensive income and expenditure statement.

**Disclosures included in current period financial statements**

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant and Equipment Valuations</b>	The reporting date for the valuations, 31 March 2020, was in the midst of the Covid-19 pandemic. On 19 March 2020 the Royal Institution of Chartered Surveyors issued a Valuation Notification to all RICS members identifying that issues caused by the pandemic mean valuations are prepared at a time of 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution should be attached to our valuations than would normally be the case. Valuations reported should also be kept under frequent review	A variation of 10% in the value of the council's land and buildings would be approximately £1.696m. A reduction would result in a reduction to the revaluation reserve and/or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and/or increases to the revaluation reserve and/or gains charged to the comprehensive income and expenditure statement.

# Informing the audit risk assessment for Ribble Valley Borough Council 2020/21

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

# Table of Contents

<b>Section</b>	<b>Page</b>
Purpose	1
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Accounting Estimates	20
Accounting Estimates - General Enquiries of Management	21
Appendix A – Accounting Estimates	24

## Purpose

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

## Background

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

This two-way communication assists both the auditor and the Accounts and 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 Accounts and Audit Committee and supports the Accounts and 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 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 Ribble Valley Borough Council's management. The Accounts and 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The Coronavirus pandemic is overwhelmingly the most significant event that will impact on the financial statements. This will be through the impact on service income and expenditure and also through some of the grant funding that the council has distributed to businesses in the borough – notably those with discretionary elements where we have acted as Principal and will consequently feature within the statements. We have had continuing issues with the high costs of maintenance with the refuse collection fleet. There were further changes to the Lancashire Business Rates Pool.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Ribble Valley Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>A review has been undertaken of the accounting policies and we are happy that these will fulfil requirements without further additions</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>The only financial instruments are in respect of:</p> <ul style="list-style-type: none"> <li>• Cash held by the Council, bank accounts, short term investments and subscribed for shares in the UK Municipal Bonds Agency plc (Local Capital Finance Company).</li> <li>• Long-Term Debtors, consisting of car loans and a loan to Roefield Leisure Centre.</li> <li>• Short-Term Debtors, representing net operational (sundry) debtors.</li> <li>• Long-Term and Short-Term borrowings, being loans with the Public Works Loan Board.</li> <li>• Short-Term Creditors, being the Council's operational creditors.</li> </ul> <p>There is no use of derivatives</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>Transactions outside the normal course of business have been in respect of the Coronavirus pandemic. However the response made would fall within our statutory duties.</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?	We are not aware of any changes in circumstances that would lead to an impairment of non-current assets - other than any residual impact from the Coronavirus pandemic on valuations when our valuer undertakes their annual review of our asset valuations. All service assets will continue to be in operation once any restrictions are lifted by the Government.
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Ribble Valley Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has not directly instructed any external solicitors to deal with litigation or contingencies. However, Solicitors were instructed by the LGA on the group litigation relating to NHS NNDR litigation and the mastercard litigation.

# General Enquiries of Management

Question	Management response
9. Have any of Ribble Valley Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Various advisors will have been engaged during the year across a wide range of council services eg valuation office, agents, consultants, archaeological advisors.

# 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 Accounts and Audit Committee and management. Management, with the oversight of the Accounts and 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 Accounts and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

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

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

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Accounts and 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 Accounts and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Accounts and 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 Ribble Valley Borough Council's management.



# Fraud risk assessment

Question	Management response
<p>1. Have Ribble Valley Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does Ribble Valley Borough Council's risk management processes link to financial reporting?</p>	<p>Yes</p> <p>Assurance levels given from audit reports and where necessary concerns flagged to members of Accounts and Audit Committee</p> <p>Risks are highlighted in committee reports and any financial implications highlighted for members attention.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>We use an Audit Risk Matrix to assess the priority of an audit area for inclusion in our Annual Audit Plan</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 Ribble Valley Borough Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No</p> <p>Reports when necessary to Accounts and Audit Committee</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 Ribble Valley Borough Council where fraud is more likely to occur?</p>	<p>Yes – Housing Benefit/LCTS and also the various Coronavirus business support grants</p> <p>Yes – above</p> <p>Fraud could occur in all locations if the control environment is not adequate and functioning as it should</p>
<p>5. What processes do Ribble Valley Borough Council have in place to identify and respond to risks of fraud?</p>	<p>Control environment, Internal Audit Plan, Whistleblowing and Anti Fraud and Corruption Policy</p>

# Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Ribble Valley Borough Council, including:</p> <ul style="list-style-type: none"><li>• the existence of internal controls, including segregation of duties; and</li><li>• the process for reviewing the effectiveness the system of internal control?</li></ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Good</p> <p>Internal Audit Plan, Whistleblowing and Anti Fraud and Corruption Policy</p> <p>Staff Shortages may impact the control environment</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Not aware of any</p>

# Fraud risk assessment

Question	Management response
<p>8. How does Ribble Valley Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Via our Procurement arrangements. Induction process, staff meetings, press releases, training and various policies</p> <p>Financial regulations state staff should be alert to the possibility of fraud and to report <b>any</b> concerns. Reporting suspected irregularities is essential to the Anti-Fraud and Corruption Policy. The Council's Whistleblowing Procedure provides a clear path for individuals to raise concerns of malpractice in any aspects of the Council's work, without the fear of recrimination or victimisation</p> <p>No</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>All posts with potential to override controls</p> <p>Via the control environment. Eg separation of duties, documentation of decisions, necessary authorisations, limitations on access to system permissions.</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>Each year, Members declare interests by completing a 'Disclosable Pecuniary Interests' form and a 'Related Party Relationships' form. These forms list any relationships and interests and are reviewed by management.</p> <p>By annually requiring members and staff to complete these forms and ensuring directors are given copies for them to review.</p>

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Accounts and Audit Committee ?</p> <p>How does the Accounts and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal staff can submit reports directly to the Audit Committee. The Head of Internal audit regularly provides a monitoring report which updates members regarding recent audits and assurance levels. The Audit Committee approves the annual Internal Audit Plan. They also receive regular updates on progress and in cases of breaches receive detailed reports.</p> <p>Worked well</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>No</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</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 Accounts and Audit Committee, is responsible for ensuring that Ribble Valley Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Accounts and Audit 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 Ribble Valley Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Ribble Valley Borough Council's regulatory environment that may have a significant impact on the Ribble Valley Borough Council's financial statements?</p>	<ul style="list-style-type: none"> <li>• Code of Corporate Governance</li> <li>• Systems of internal control</li> <li>• Annual Governance Review</li> <li>• Monitoring Officer role</li> <li>• Codes of Conduct</li> <li>• Financial regulations</li> <li>• Contract Procedure Rules</li> </ul>
<p>2. How is the Accounts and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Assurance given as part of the Annual Governance Review, where such issues are reviewed under Core Principle A – Behaving with integrity, demonstrating commitment to ethical values and respecting the rule of law.</p> <p>Where relevant, breaches would be reported to members</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>None that are known of</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Not aware of any current or potential litigation which could affect the financial statements</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does Ribble Valley Borough Council have in place to identify, evaluate and account for litigation or claims?	<p>Claims are identified either by receipt of a claim form or legal letter. All claims are referred to the legal department who evaluate and put in place arrangements to deal with those claims.</p> <p>Subrogated claims are referred through the internal audit team (who deal with the council's insurance) to the insurers.</p> <p>Should the need arise we would put a contingent liability or a provision in the accounts dependant on the nature/certainty/materiality of the item</p>
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

Ribble Valley Borough Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

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

# Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Ribble Valley Borough Council 's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Ribble Valley Borough Council whether Ribble Valley Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>None identified at this stage of the closedown process. Once the financial year has been closed a thorough review of transactions against declarations will be undertaken to confirm that this is the case</p>
<p>2. What controls does Ribble Valley Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Officer and Member disclosure forms completed annually. These are reviewed against in year transactions.</p> <p>Declarations of interest are also sought from members at meetings and this is minuted.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Steps are taken to ensure that any transactions where an interest had been declared did not involve the relevant officer or member.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Any significant transactions outside of the normal course of business would be considered initially by the Council's Corporate Management Team and then by relevant service committees and if there were financial implications outside that already allowed for within the budget, such items would also be considered by the Policy and finance Committee</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
<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"> <li>• Pensions Liability</li> <li>• Arrears</li> <li>• Business Rates Appeals Provision</li> <li>• Property, Plant and Equipment Valuations</li> </ul>
<p>2. How does the Council's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Material items of income and expenditure are initially flagged for consideration to assess if there have been, or needs to be, any element of estimation. The materiality of this is then assessed against the likelihood of valuation fluctuation.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Latest best practice is followed where relevant when making any estimation. In a number of areas guidance is sought from external advisors and there expertise is followed – subject to any challenge we may make on assumptions that they may make.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Where a clear fixed outcome is possible to be identified, the estimation and outturn position are compared and used to help assist in any future estimations</p>
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>The accounts closedown process is not yet at a stage to adequately answer this question</p>

# 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>If the necessary in-house skills are not held by the council, external specialists would be sought.</p>
<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>The reasonableness of any estimations provided is always checked and challenged with the provider where relevant.</p> <p>Relevant qualifications are sought to ensure that the person or persons are able to provide what is requested.</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>Reference made to the organisation and their ability to provide what is required.</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>Discussion with the S151 officer, for all material items, particularly in areas where there is a high level of uncertainty.</p> <p>Best fit estimation techniques are discussed and agreed.</p> <p>External advise sought where needed – ie asset and pension valuations</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 ?	Details are provided within the statement of accounts and clearly identified to members prior to approval.

## 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	Use of external valuer	Direct involvement in revaluation process and engagement of experts by Head of Financial Services	External Valuer Taylor Weaver	Valuations are compiled by a professional external valuer using professionally recognised basis.	None planned
Depreciation	Based on previously identified asset lives from the prior year valuations	Set Policy		The main assumption in the depreciation is the useful life of the asset.  Property assets have their useful life estimated by our expert valuer.	None planned
Valuation of defined benefit net pension fund liabilities	Use of external actuary		External Actuary Mercers	Detailed information to support calculations and assumptions used is provided by the Actuary based on data submitted by the employer.  The only cause of uncertainty is the impact of the Covid pandemic on financial markets	None planned
Fair value estimates (If applicable)	Notification from PWLB  For Debtors and Creditors, fair value is taken to be the invoiced amount		Relevant in respect of PWLB debt – and provided by them	There are no complex borrowings - Fair Value estimates are prepared by PWLB via statements for long term borrowing.	None planned

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions – NDR Appeals	Calculated based on VO data and past experience, where this is available		No – other than VO for appeals data	Uncertainty due to variance in appeal decisions and significant backdating	
Accruals (if any are material)	N/a at this stage				
Credit loss and impairment allowances	Past experienced losses/impairments  Also, stepped impairment rates based on debt age			Impact of Covid	





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