



To:
All members of the
Audit Committee

Please reply to:
Contact: Melis Owen
Service: Committee Services
Direct line: 01784 446449
E-mail: m.owen@spelthorne.gov.uk
Date: 24 September 2024

Supplementary Agenda

Audit Committee - Thursday, 26 September 2024

Dear Councillor

I enclose the following item which was updated on the agenda due to formatting issues for the Audit Committee meeting to be held on Thursday, 26 September 2024:

6. Audit Risk Assessment

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To consider the audit risk assessment for Spelthorne Borough Council 2023/24.

Yours sincerely

Melis Owen
Corporate Governance

To the members of the Audit Committee

Councillors:

J. Button (Chair)

J.P. Caplin

P.N. Woodward

K. Howkins (Vice-Chair)

L. E. Nichols

J.R. Boughtflower

H.R.D. Williams

Independent Member: P. Briggs

Substitute Members: Councillors: M. Arnold, C. Bateson, M. Bing Dong and T. Burrell

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

www.spelthorne.gov.uk customer.services@spelthorne.gov.uk telephone 01784 451499

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Informing the audit risk assessment for Spelthorne Borough Council 2023/24

Name: Joanne Brown
Title: Key Audit Partner
Telephone: 07966971604
Email: joanne.e.brown@uk.gt.com

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Spelthorne Borough Council's external auditors and Spelthorne Borough Council's 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 oversight of the following areas:

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

Purpose

This report includes a series of questions on each of these areas and the response we have received from Spelthorne Borough Council'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 2023/24?	We are not anticipating any delays in producing the statement unless any unforeseen circumstances happen.
2. Have you considered the appropriateness of the accounting policies adopted by Spelthorne Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	<p>Yes, we have . A paper on Accounting Policies was taken to Audit Committee on 19th March 2024.</p> <p>There were no events or transactions that has caused or may cause changes to o</p> <ul style="list-style-type: none"> • IFRS 16 • Rent incentives and spreading these over the lease rather than a cash accounting basis. • We welcome feedback from Grant Thornton on their review of the draft 2022-23 Statement of Accounts, and we will also be mindful of the increased emphasis on ensuring that accounting policy disclosures focus on material policies.
3. Is there any use of financial instruments, including derivatives? If so, please explain	<p>No, we do not use derivatives.</p> <p>Yes, we use Financial instruments</p> <p style="padding-left: 40px;">Assets cash in hand, bank current and deposit accounts, fixed term deposits Loans to local Authorities Pooled Fund Money Market funds - ICD Loan to subsidiaries – KGE & SDS</p> <p style="padding-left: 40px;">Liabilities long-term loans from the Public Works Loan Board , short-term loans from other local authorities, overdraft with bank, lease payables – IFRS16 Private Finance Initiative contracts detailed in note X – we do not have any of these. and trade payables for goods and services received – not used here.</p>
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Council not making an significant purchases of assets – only acquisitions individual houses under Local Authority Housing Fund

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Not anticipating any significant impairments of non-current assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	Potential claim from family of an individual who fell from roof of Benwell House (and survived) claimed would impact on the Group Accounts through Knowle Green Estates. Amount of the claim is not known as the claim is not made yet .Have 3 yrs. for the family to make the claim
8. Other than in house solicitors, can you provide details of those solicitors utilised by Spelthorne Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Clyde & Co, 12 College Place, Essex Chambers, Francis Taylor Building Solutions, Cornerstones Barristers, Ivy Legal Ltd, Birkett's Ltd, Landmark Chambers, Constantine Cannon LLP, Wilkin Chapman LLP, GRC Legal Services Ltd, Capsticks Solicitors, Field Court Chambers, Bevan Brittan LLP, Field Court Chambers, 4-5 Gray's Inn Barristers. open litigation – for example I think Clyde and Co are involved with interaction with the administrators on Volga-Dnepr

General Enquiries of Management

Question	Management response
<p>9. Have any of the Spelthorne 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? If so, please provide further details</p>	<p>Not aware of any.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Legal matters like planning, local plan work for designing the plan and advice, employee advice for HR, construction consultants like architects and surveyors for capital programme items, treasury management advisors Arling Close, LG futures regarding business rates, Sports consultancy company in Leisure for new leisure centre contract,</p> <p>JLL commissioned to produce report reviewing the Council's investment assets this was reported to Development Sub-Committee</p> <p>Spelthorne participated in a Surrey wide Financial Resilience Review undertaken by LG Improve which was presented to Surrey Chief Executives and Surrey Leaders. Note LG Improve also provide benchmarking service for Spelthorne primarily on capital health and reserves</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Yes, ECL on trade debtors, loans & deposits.</p>

Fraud

Matters in relation to fraud

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

The primary responsibility to prevent and detect fraud rests with both the Audit 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 Spelthorne 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 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 Spelthorne Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Spelthorne 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 do the Council's risk management processes link to financial reporting?</p>	<p>We are not anticipating any misstatements.</p> <p>The general risk of fraud has become more prevalent in the wider context, i.e. as we continue to face challenging and turbulent economic times and this key message has been communicated to the executive management team and the Audit Committee to coincide with key reporting. For example, please refer to the Counter Fraud, Bribery and Corruption strategy report issued March 2023 (See Audit Committee agenda) as this sets out counter fraud measures in place at Spelthorne, and this will be reported again as part of the regular strategy review/update in March 2024. It includes a quantifiable reporting system for public fraud (high risk areas).</p> <p>Internal audit carry out audits each year of some key financial systems determined by the level of risk, in sales ledger, purchase ledger, income & payments, treasury management, Payroll, benefits and revenues. This year we also asked Internal Audit to undertake an audit focused on financial resilience and this has commenced.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Most likely payables in case of any ghost payments.</p> <p>Accounts payable (Creditors)</p> <p>Payroll</p> <p>Treasury Management</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Spelthorne Borough Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Management hold weekly meetings with group head representative present and once a month with all Group Heads. From time to time the audit manager at our monthly Managers' Briefing reminds managers of risk issues.</p> <p>Corporate Management Team (as well as Audit Committee and Corporate Policy and Resources Committee) receive the Corporate Risk Register on a quarterly basis.</p> <p>A corporate risk scoring model is applied to help prioritise risks for further action. All reports to committees are required to comment on risk considerations.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Spelthorne Borough Council where fraud is more likely to occur?</p>	<p>The risks of fraud occurrences are considered as part of audit planning processes and incorporated into internal audit scope for specific reviews as deemed necessary by the Audit Manager. These will depend on the system/area being audited.</p> <p>A risk based approach is applied to all audits at the outset to determine the risk of fraud across any system (beyond core financial systems). See further responses below.</p> <p>The potential risk of internal fraud occurrence is commonly perceived to be higher for areas or systems dealing with large volume/high value transactions, with higher risk financial datasets comprising all the key financial systems, as well as Commercial Assets (significant rental income). In particular, Creditors (accounts payable), Payroll, Debtors, Treasury Management. Internal fraud actual occurrence has not been identified to date across any of these systems for 2023/34 from audit testing/reviews undertaken.</p> <p>High risk public fraud areas (which may also be subject to risk of internal fraud) include Housing, Benefits, Council Tax and Business Rates. Wider risk factors have to be considered however and therefore a risk based approach is applied to all audits at the outset to determine the risk of fraud across any system (beyond core financial systems).</p>
<p>6. What processes do Spelthorne Borough Council have in place to identify and respond to risks of fraud?</p>	<p>Internal audit test controls, reconciliations, approving processes for payments, approving set up of new supplier forms, treasury daily cash process of approvals, segregation of duties (finance do not raise payments for services). Journals are approved when over £20k.</p> <p>Internal Audit apply a risk-based approach and methodology to audit work and would consider the potential for fraud risks as part of conducting internal audit reviews (at various stages including audit planning and scoping, risk evaluations, fieldwork, and testing). This includes assessing the robustness of systems of internal control (for which Managers are accountable in maintaining and operating) to :</p> <ul style="list-style-type: none"> Minimise the risk of fraud (prevention and deterrence) Detect potential occurrences of fraud or error Pursue corrective action <p>Some examples of key controls IA would consider when reviewing fraud risk for key financial systems includes (not an exhaustive list):</p> <ul style="list-style-type: none"> Compliance with key policy requirements Adequacy of Segregation of Duties Relevant approvals and authorisations in line with delegated authorities Management review including exception reports produced and checked Reconciliation processes System access permissions <p>Data analytics is applied where appropriate to detect potential fraudulent or erroneous transactions or activity associated with higher risk datasets. This modern audit approach is intended to provide extended assurance to the Council to safeguard the council's financial resources, and draws out positive assurances as well as any areas requiring further validation.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Spelthorne Borough Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Council’s internal audit carry out internal auditing in accordance with the audit scope and objectives (determined by the risk based audit programme of work) to ensure internal system of controls are adequately designed and operating effectively to manage associated risk. Please refer to answers above and correspondence with SBC’s internal audit department and the queries answered by them. As a general comment, where there are small teams operating this may on some occasions present increased challenge in operating adequate segregation of duties and links also to reduced resilience. This may be easier to manage where there are integrated workflows and interventions built into systems i.e. automated in-built controls.</p> <p>Internal Audit produce findings and recommendations for each areas audited where conclusions indicate there is scope to improve internal controls. Management are accountable to then implement any agreed recommendations.</p> <p>Please refer to earlier responses regarding key expected controls for key financial systems. Not aware from internal audit work undertaken of any management override of controls for the financial year 2023/24 to date.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Not aware.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Spelthorne 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? Have any significant issues been reported? If so, please provide details</p>	<p>HR provide . Reinforced by Management Team and managers in one-to-ones with staff.</p> <p>Addressed as part of induction process for new staff</p> <p>There are mandatory yearly training courses for staff on fraud, bribery and corruption.</p> <p>Any unusual activity. There are anonymous phone lines for staff to report fraud. Posters displayed in staff kitchens etc. Whistle blower policy reviewed annually by Audit Committee</p> <p>No issues have been reported. For public fraud, collaborative arrangements are in place with another local authority to investigate suspected fraud referrals and outcomes are periodically reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Planners taking back handers, management team.</p> <p>Any posts that have access to information/systems from which there is a potential to derive financial gain/other benefit.</p> <p>This would be considered as part of an internal audit review.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Members & Group heads and senior officers are asked to return related parties forms to identify any relationships and asked prior to meetings if there are any conflicts of interest. All officers are required to submit an annual Declaration of Interests return to their line manager.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the 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>Refer to internal audit correspondence.</p> <p>Counter Fraud, Bribery and Corruption Strategy is reported and reviewed annually, to the management team and Audit Committee. Quantifiable fraud reporting system for public fraud.</p> <p>Periodical reporting to the Audit Committee on Internal audit activity including audit findings and recommendations aimed to strengthen internal control.</p> <p>Audit Committee can call Managers to attend meetings if they wish to discuss any risk and control matters.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p> <p>Aware of a whistle blowing issue within Metropolitan Thames Valley Association re Whitehouse and Harper which is currently being investigated by the provider</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Spelthorne 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 Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>All reports are required to have comments from legal team. Managers are experts in their technical fields of work and therefore expected to keep abreast of associated laws and regulations relating to their area of expertise.</p> <p>The Legal Team have monthly client meetings across departments and any upcoming legal changes would be highlighted and discussed at those meetings.</p> <p>Officers keep up to date with changing laws and regulations through CPD, training, participating in professional groups such as Surrey Treasurers, Surrey Administrators and Solicitors, Surrey Chief Accountants, and through advice provided by professional advisers such as Arlingclose.</p> <p>Training</p> <p>Internal Audit</p> <p>Not aware of any significant impact on 2023-24 Statements but with other councils monitoring the future impact on Building Control of the change in the regulatory regime for that sector.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council's Monitoring Officer has a personal duty to report formally to the Council on any proposal, decision or omission by the Council which has given rise to or is likely to give rise to unlawfulness. Any non-compliance with laws and regulations would also be covered in Internal Audits and also the Annual Audit Opinion.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Benwell claim – potential claim from family of an individual who fell from roof of Benwell House (and survived) claimed would impact on the Group Accounts through Knowle Green Estates. I might not be in 2023/24 as they have 3yrs to claim.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Spelthorne Borough Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Insurance and legal teams work closely together. Council is supported by the expertise and capacity of London Borough of Sutton's insurance team.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>No</p>

Related Parties

Matters in relation to Related Parties

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

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

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the 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 Spelthorne Borough Council's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Spelthorne Borough Council whether Spelthorne Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>Now received a full set of responses from senior officers and councillors on related parties. No significant changes relative to 2022-23.</p>
<p>2. What controls does Spelthorne Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>A year end process of sending forms to councillors and senior staff, they are asked to make a disclosures. Individuals are chased up. All staff required to submit an annual Declaration of Interests return to their line manager.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Members would not be allowed to vote on something they have an interest disclosed. Registers of interest are maintained</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Any expenditure above £1m requires approval by full Council Officers and councillors are required to operate within the delegations set out in the Constitution</p>

Going Concern

Matters in relation to Going Concern

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

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

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

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

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Spelthorne Borough Council will no longer continue?</p>	<p>Horizon scanning. Participation with communication streams from Government, LGA, DCN and working with Surrey groupings such as Surrey Leaders, Surrey Chief Executives, Surrey Treasurers, Surrey legal officers, and advisers such as LG Futures.</p> <p>Budget process first stage involves each committee agreeing service plans for next year for the services under that Committee.</p>
<p>2. Are management aware of any factors which may mean for Spelthorne Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by Spelthorne Borough Council, does Spelthorne Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Spelthorne Borough Council to cease to exist?</p>	<p>Yes</p> <p>There are no plans for Spelthorne Borough Council to cease to exist.</p> <p>Surrey Leaders and Chief Executives following an independent Financial Resilience review are in discussions about steps which can be taken over medium term to increase the resilience of local government in Surrey.</p>
<p>4. Are management satisfied that the financial reporting framework permits Spelthorne Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes</p> <p>The Outline Budget approach provides a medium-term projection over next four years – Budget gap projected for 2027-28, when 24-25 Budget was set, is £2.7m which is addressable (errs on cautious side for example assuming no Core Spending Power guarantee grant)</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
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?	Interest rates, law / legislation changes, inflation on costs.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	Quarterly reporting to members to forecast expected year end outturn position. quarterly reporting of Corporate Risk Register. Any perceived risks are notified and discussed as and when, and if material, added to the risk registered, or monitored for future developments if immaterial, to ensure that they remain immaterial.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	As flagged above first stage is the service planning with services identifying contractual pressures, statutory changes, contract renewals etc. Corporate Policy and Resources Committee (CPRC) consulted early on re central case assumptions around inflation, uplift of fees and charges, council tax, pay – there is an ongoing discussion with councillors through the Budget Briefings
4. How do management review the outcomes of previous accounting estimates?	Monitoring reports, particularly between Revenue & Capital Outturn (March) and Q1 revenue & capital monitoring (June). Officers will also review the MTFP. If there is an issue due to methodology, (unlikely) officers will review the circumstances and amend the methodology. Usually the issue is around a lack of understanding by budget managers and the finance team address this through training sessions pre yearend, push back on managers from the CFO through the Service Accountants.
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	No changes to the methodology

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The finance team meet with budget managers monthly and use a critical friend approach to reviewing current and expected budget spends. The most critical area for the Council is the investment and regeneration portfolio, and reliance is placed on professional firms, such as Wilks Heads & Eves to advise and guide officers, with both the assets and finance teams questioning assumptions and outcomes, where there has been a significant or unexplained change from the previous year.
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?	There are a number of standard reporting processes for Council activities, such as, NNDR and by monitoring these returns, officers will get a feel for any significant estimates used and if a specialist is required, when it comes to finalising returns, and will often utilise LG Futures to review the collection fund returns before submitting same to DLUHC. So, where possible officers will utilise specialist input to assist with estimates.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Reliance will be placed on the appropriate teams who manage the experts, for example, assets when dealing with valuers. Finance Officers will participate and once agreed will use the information provided by the experts.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	There are three informal Budget Briefings open to all councillors which explain the underpinning assumption, challenges, options etc. .In summer report goes to CPRC on approach to Budget with respect to assumptions. Report on accounting policies goes to Audit Committee in March. The Audit Committee receive the draft unaudited accounts in July and feedback, Officers advise the Committee of any significant issues.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>No</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>Yes</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Estimates are reviewed by budget managers, group heads, the chief accountant prior to the quarterly monitoring reports being written. Management team then review and ask question prior to be sent to Cllrs. Report on accounting policies goes to Audit Committee in March and the Unaudited Accounts are presented in July providing the Committee with an opportunity to question officers and for officers to provide feedback to the Committee.</p>

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 – we need to expand on methodology – invite comment from Assets	NA	Yes	NA	No
Council dwelling valuations	External valuers- Council does not have HRA	NA	Yes	NA	No
Investment property valuations	External valuers valuers – we need to expand on methodology – invite comment from Assets	NA	Yes	NA	No
Depreciation	Freehold land is not depreciated Buildings Remaining useful life as estimated by qualified valuer. Vehicles and IT Equipment 20% of the carrying amount. Other Equipment 5 years 26	NA	Finance regs in line with CIPFA code of practice	The methodologies used are in line with the CIPFA code of practice and when non property assets are disposed of, there is not a significant difference between the disposal proceeds and net book value. Officers have noticed minor issues with vehicles, where it would be appropriate to relief these assets, however, they are immaterial, as far as the SoA are concerned.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit pension liability	IAS 19 report from Actuary	Prepare journal entries/ working papers based on Actuary statement and then checked/ authorised by Chief Finance Officer	I am not aware of any being used	N/A	No
Level 2 investments	N/A			N/A	
Level 3 investments	N/A			N/A	
Fair value estimates	<p>Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:</p> <ul style="list-style-type: none"> <input type="checkbox"/> instruments with quoted market prices – the market price <input type="checkbox"/> other instruments with fixed and determinable payments – discounted cash flow analysis. 		Yes, we ask Arlingclose to review	N/A	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions - Others	Comms to budget managers, review of post year end expenditure and comms with key officers, i.e., head of legal. Then each case reviewed by Service Accountants and agreed with the Chief Accountant and or CFO	Assessment of the situation and degree of probability it will crystallise, as could be classified as contingent	Depends on the item	See comments in Controls used section	No
Provisions – Business rates (NNDR)	Local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. The level of NDR provision has decreased from the prior year as more appeals become finalised. We consider the related disclosure to be proportionate, though slightly optimistic in line with the prior years	NNDR Income – VOA Reports Copies of year end VOA report detailing total rateable values including evidence to demonstrate that the Authority has reconciled these with its NDR systems.	LG Futures to review once the NNDR 1 and 3 is prepared	NA	NO
Accruals	Part of the annual process, training pre year end, email comms pre year end	Prepared by Budget Managers and first review by Service Accountants, then Chief Accountant and CFO	No	There should not be any degree of uncertainty in the accruals and prepayments estimates	No
Credit loss and impairment allowances (Arrears)	Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.	At the yearend journals for ECLs are done at the year-end in order to record them in the accounts CR ECL provision for debtor or investment DR General fund In year transitions would be: DR I&E provision for credit losses CR ECL Provision	Get Advice from Arling close some time		NP

Appendix A Accounting Estimates (Continued)

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?
Finance lease liabilities	IFRS 16	From the Lease Contract	NO	There has been some issues with obtaining the APR within the contract taken out in July 2023, whilst the contract values are material, the annual lease payments fall under materiality levels and officers are still chasing for the relevant information.	Not since 2022/23 where we adopted IFRS 16
PFI Liabilities	N/A	N/A	N/A	N/A	N/A
Minimum Revenue Provision (MRP) Credit	The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant	Monitor regularly through Treasury management	Arlingclose Advisors	MRP Statement is monitored regularly, and repayments and interest rates are adjusted	NA



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