

Informing the audit risk assessment for Barnsley Metropolitan Borough Council 2022/23

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Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Barnsley Metropolitan Borough Council's external auditors and Barnsley Metropolitan 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 Barnsley Metropolitan Borough 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 Barnsley Metropolitan 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>The Pension account has become a surplus which has had a significant impact on the Financial Statements. This has been accounted for under IFRIC 14 and the relevant narrative is added to the accounts. The cost of living crisis caused by inflation and rising cost of energy has also had a significant impact on the Statement of Accounts. There is also rising interest rates which has had a minimal impact on the Financial statements due most of BMBC debt is on fixed terms. There is also rising demand and cost of services particularly within children's social care.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Barnsley Metropolitan 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>	<p>The Council's accounting policies are reviewed annually as part of the preparation of the accounts For appropriateness and to ensure they reflect any changes to accounting principles. No new events or transactions have required a change to the accounting policies. The Audit & Governance Committee receives assurance over the accounting policies adopted via the detailed report and accompanying presentation of the accounts where any material changes in accounting policies are highlighted. A&GC would also receive further detailed information on any significant changes in accounting policies as required/appropriate The only change that has impacted the 22/23 accounts is IFRIC 14 due to the Councils pensions reserve becoming a surplus.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The council currently has no financial instruments or derivatives as detailed in the notes of the accounts. Any newly adopted financial instruments would be discussed in detail with management and A&GC as appropriate</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>The Council has received additional income of 4.7 million and expenditure of 4.4 million in relation to the Household Support Grant. During 2022/23 Barnsley Council was also successful in gaining financial support from the DfE as part of the Safety Valve Programme. This resulted in an additional payment of £9.160m of DSG on the 31 March 2023, which reduced the cumulative deficit amount to be carried forward into 2023/24.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	There have been no significant events that have caused any impairment of any of the Councils assets.
6. Are you aware of any guarantee contracts? If so, please provide further details	<p>We have several bonds held in some highway's agreements and collateral warranties in some construction contracts, major projects and well as parent company guarantees when necessary, including if that was a requirement for that particular tender.</p> <p>The Council has issued several warranties in relation to the Glassworks project which are in place to protect the Councils financial and other interests, which are agreed following the Councils governance procedures.</p>
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	There is proceedings against the Council in relation to term time pay claims, the full impact of which is unknown, however expected to be paid towards the end of 2023/24. The Council have a provision in the accounts in relation to this which we feel is sufficient.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Barnsley Metropolitan Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Walker Morris – Call off Solicitor contract – Locums/specialist advice for any legal matter that can't be dealt with in house.</p> <p>Gowlings – commercial lawyers relating to the Councils commercial leases entered into for the Glassworks</p> <p>Kennedys and Weightmans – Solicitors who deal with any insurance matters that cannot be dealt with in house.</p> <p>Legal Services also attains addition legal support and provision under the East Midlands Lawshare arrangement which is cost effective service provision drawn down upon by many public sector bodies and local authorities.</p>

General Enquiries of Management

Question	Management response
<p>9. Have any of the Barnsley Metropolitan 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>The Council is not aware of any fraud, non-compliance or uncorrected misstatements.</p> <p>Audit Committee would be notified of such risks when they arise.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>The Information Commissioner was contacted by the Council 8 times regarding matters relating to data protection, none of which resulted in any action being taken against the Council.</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>The Council holds a number of loans with local organisations for service delivery purposes as well as holding shares in a number of delivery vehicles [e.g. BSF Schools delivery vehicle]. Each year, the Council assesses both the loans and the values of the shares, reflective of the circumstances at that time. Using this assessment, determines the level of provision accordingly.</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 Barnsley Metropolitan 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 Barnsley Metropolitan Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Barnsley Metropolitan 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 Barnsley Metropolitan Borough Council's risk management processes link to financial reporting?</p>	<p>As part of the arrangements in preparing the Council's statutory accounts a number of control measures are in place. The financial statements undergo a thorough integrity check process as part of the council's normal internal controls framework. As such the risk of material misstatement due to fraud is assessed as part of that wider controls framework which would highlight this, e.g. via budgetary control, exception reporting, supplier complaints about not being paid and duplicate payment software and processes.</p> <p>The S151 Officer and Deputy S151 Officer also undertake a thorough review of the accounts process.</p> <p>Internal Audit conduct core financial systems audits during and covering the year based on a risk strategy agreed with management. The Audit & Governance Committee receive details of the findings from these reviews. All core system reviews received a positive assurance opinion as highlighted in the Head of Internal Audit's annual report.</p> <p>The council's risk management process is integrated into all key decisions and the financial reporting framework with key strategic and operational risks being reported through the normal governance procedures.</p> <p>The Audit & Governance Committee would be informed of any areas of fraud and the impact that this may have on the statutory accounts.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The key areas of the accounts at highest risk of fraud include payroll transactions, creditor payments and construction related payments (due to their particular value), although the council's control environment work to detect and prevent such risks occurring.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Barnsley Metropolitan Borough Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>We are not aware of any material instances of fraud or irregularity having occurred.</p> <p>A number of instances of council tax, blue badge and tenancy fraud have occurred during the year. The NFI exercise also highlights instances of irregularity, error and fraud. All are reported to the Committee through the Corporate Anti-Fraud Team or Internal Audit reports.</p> <p>None of the instances identified are material either individually or collectively.</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>The Audit & Governance Committee receives presentations from the key areas of risk, concern and focus at each of its meetings alongside specific updates reports from the Corporate Anti-Fraud Team and Internal Audit.</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 Barnsley Metropolitan Borough Council where fraud is more likely to occur?</p>	<p>No risks have been identified during 2022/23 in relation to the possibility of the material misstatement of the accounts.</p> <p>The prompt for all Business Units to undertake a general fraud vulnerability assessment is incorporated within the annual governance review process. This process has not identified any significant areas of fraud vulnerability.</p>
<p>6. What processes do Barnsley Metropolitan Borough Council have in place to identify and respond to risks of fraud?</p>	<p>As mentioned above, all Business Units undertake a general fraud vulnerability assessment as part of the annual governance review process.</p> <p>Fraud risks are also specifically examined as part of all Internal Audit work.</p> <p>The Audit & Governance Committee also receives any updated anti-fraud policies for their consideration as they are periodically reviewed.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Barnsley Metropolitan 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>Internal Audit prepare an annual core financial systems strategy. This is discussed with the S151 Officer and shared with External Audit. The audit of these systems covers the key control environment and particularly the segregation of duties.</p> <p>Any areas where internal controls can be enhanced that are highlighted by Internal Audit require a management response and action. These are monitored by Internal Audit and reported to the Audit & Governance Committee.</p> <p>Various policies, procedures, guidance and training are in place covering all the financial systems and processes within them. The work of Internal Audit and the Corporate Anti-Fraud Team are a further check on the effectiveness of control and management of fraud risk. The council has a confidential reporting policy that would afford the opportunity for an employee with a concern about fraud to raise their concern in a safe and secure manner.</p> <p>There has been no evidence of the override of controls.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No areas of potential mis-reporting have been identified to date.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Barnsley Metropolitan 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>Compliance with the council's ethical standards and behaviours is also covered in the annual governance review process. The Code of Corporate Governance (considered by the Committee) includes the 7 Principles in Public Life. The Council's visions and values also highlight expectations for good ethical behaviour.</p> <p>Anti-fraud policies are available on the intranet and specifically communicated when reviewed and updated. Periodic awareness items are included in corporate communications. A Fraud Awareness Week is held (next being 13-17 November to promote fraud awareness and reporting.</p> <p>No significant concerns have been raised through the Confidential Reporting policy.</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>Given the arrangements for management and supervision and the general segregation of duties, there are no posts that are deem specifically high risk. However, posts in financial transactional areas, Legal, Planning and where there is direct influence over financial resource decisions are clearly of 'higher' risk than others.</p> <p>As mentioned above, Internal Audit consider the arrangements for the effective segregation of duties within all the core financial systems and processes.</p> <p>No additional control measures are deemed necessary in relation to any areas regarded as slightly higher risk.</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>The council has not discovered any fraudulent transactions that have taken place with related parties.</p> <p>Annual declarations are required from key officers in relation to any related party transactions.</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>The Committee receives update reports from the Corporate Anti-Fraud Team and Internal Audit.</p> <p>The Committee also oversees the annual Internal Audit plan and the Anti-Fraud Strategy and Plan to be assured of appropriate coverage of fraud risk. Through Internal Audit reports, the Committee monitors the implementation of management actions resulting from Internal Audit work.</p> <p>The Committee has received regular reports from Internal Audit and Corporate Anti-Fraud that highlight any identified control weaknesses and areas from improvement.</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>The Committee receives an annual report regarding the use of the Confidential Reporting process.</p> <p>No referrals through that process have been significant and none relate to any implications on the statutory accounts.</p> <p>The ED Core Services and the Head of Internal Audit, Anti-Fraud and Assurance are the two named Whistleblowing Officers. Each has secure and separate means to be contacted.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports have been received under the Bribery Act,</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 Barnsley Metropolitan 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 Barnsley Metropolitan 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>The Council's Monitoring Officer has statutory responsibility for ensuring the Council acts lawfully; he has sight of all key decisions including decisions that go through Cabinet and Full Council and is supported by a deputy Monitoring Officer who provides further assurance.</p> <p>The Council has guidance in terms of what implications to consider in respect of any Cabinet Report / Decision included within that guidance is a section on how legal implications are to be considered and formally agreed in advance with the legal department.</p> <p>EDs have responsibility to ensure their own directorates policies, procedures, and decisions also comply with the constitution and are lawful.</p> <p>External inspections would highlight any legal compliance issues.</p> <p>The Audit & Governance Committee would receive a formal report on any breaches or non-compliances..</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The annual governance review process requires all SDs to confirm their compliance with the relevant legislative responsibilities. The Committee receives the outcome of the AGR (by exception) as it is incorporated into the draft and final AGSs.</p> <p>The Committee is briefed on the AGR process and have the opportunity to comment.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>No instances of non-compliance that we have identified.</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>There is potential litigation with regards to potential claims from term-time only workers for back pay, which the impact is currently unquantifiable. We await the outcome of Supreme court case involving other parties before further consideration. A&GC will be updated on the ongoing process as required.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Barnsley Metropolitan Borough Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The council is insured against potential claims. Where a claim is received depending on its nature, external advice is sought via the insurance contract to provide support.</p> <p>For any other claim or litigation regular discussions are held between Finance and Legal Services to determine the impact including cost, likelihood of settlement, and the best course of action is pursued. This is reviewed upon receipt of any new information.</p> <p>Consideration would be given in the annual accounts process as to whether this would result in a provision to be made within the accounts</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>During 2022-23 there were 25 contacts received from the Local Government and Social Care Ombudsman and 20 from the Housing Ombudsman Service. No other areas of non-compliance have been reported to other regulatory bodies.</p> <p>No reports were received from HM Revs and customs or other government departments</p>

Related Parties

Matters in relation to Related Parties

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

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Barnsley Metropolitan 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 Council's perspective but material from a related party viewpoint then the Council must disclose it.

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Barnsley Metropolitan Borough Council's 2022/23 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Barnsley Metropolitan Borough Council whether Barnsley Metropolitan Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There have been no changes to the related parties within Barnsley Council's financial statements.</p>
<p>2. What controls does Barnsley Metropolitan Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Any new companies / arrangements that the Council enters into are identified through the formal Council approval route where finance professionals advise on the specifics of entering into the arrangements. They would be considered at this point as to whether they are a related party. The Council's legal department would also be consulted on any such activity. Officers and elected members complete an annual questionnaire about any relationship they may have with any related body. Guidance in relation to how the Council's partnerships and collaborations are governed is currently being drafted that will be considered by the Committee in due course.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Any transactions with any related party would be overseen / subject to the same governance arrangements as to with all other transactions i.e. in line with the constitution, scheme of delegation and financial regulations. The Council's ordering / payments systems and internal controls have systematic approvals process.</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 Barnsley Metropolitan Borough Council will no longer continue?</p>	<p>The Council has a robust Medium Term Financial Strategy (MTFS), which provides a holistic approach to management of the Council's finance. In recent months, with the cost of living crisis and the high inflation rates, the Council has refreshed its MTFS regularly to try and capture the impact on its financial situation. This has been well planned for and reserves were set aside accordingly to help alleviate the added pressures. There is a financial plan to manage the expected deficit which relates to a transformation programme across, which looks at ways in which services are delivered in the future.</p>
<p>2. Are management aware of any factors which may mean for Barnsley Metropolitan 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>As highlighted above the Council has a robust financial planning framework in place. The rising demand and costs for Services, particularly in Childrens social care is creating a significant strain on BMBC finances however the MTFS is has been prepared on a prudent basis with a plan in place to address any gaps including the Transformation programme. The Council also has a reasonable level of reserves and minimum working balance to call upon should this be required to help temporarily protect statutory services should this be required.</p>
<p>3. With regard to the statutory services currently provided by Barnsley Metropolitan Borough Council, does Barnsley Metropolitan 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 Barnsley Metropolitan Borough Council to cease to exist?</p>	<p>At present, there is no concern with the Council continuing to provide its statutory services in the immediate term.</p>
<p>4. Are management satisfied that the financial reporting framework permits Barnsley Metropolitan 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>The Council considers the accounts to be produced on a going concern basis based on the transformational plan to bridge the forecast deficit This is highly dependent on the delivery of said plan and forecast funding position not being significantly worse than is currently anticipated.</p>

Accounting estimates

Matters in relation to accounting estimates

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

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

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

Specifically do Audit Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Non-Current Assets - valuation, useful lives and depreciation Pensions - Valuation of fund assets and liabilities Accounting accruals Expected credit losses Provisions Audit and Governance committee have received specific updates on the movement of key estimates, namely asset valuations and pensions. There has been no change in the methodology adopted by the Council for 2022/23.</p>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>The management risk is inherent withing the accounting estimates process. Each respective area of estimation is duly considered, comparing the methodology technique with the risk of material misstatement within the financial statements. Advice is sought from the S151, and deputy S151 Officer where areas of materiality issues may present themselves. The annual governance review process prompts all BUs to confirm compliance and understanding with all aspects of financial management. No material issues have been identified through that process.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Th Council reviews the accounting Code of Practice annually to identify any change in the guidance. Wider than that, specifically relating to non-current assets and pensions, our valuers will consult RICS professional guidance and the actuary will consult appropriate guidance, respectively. In addition, the reasonableness of the actuary's assumptions are also tested out/ challenged by SY DOFS as part of actuarial review process. The Council also reviews its own 'inputs' for reasonableness when submitting the information for which the actuarial estimates are based on.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Any such changes to accounting estimates is likely to be the result of information / performance arising that indicates an inappropriate estimate, hence promoting the change.</p>
<p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p>	<p>There were no changes to the estimation process in 2022/23</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>There are areas of the accounts that require inputs in terms of the use of experts, that the Council rely on to provide the necessary estimates. For example, the Council relies on its qualified RICS valuers to form estimates of valuation and asset lives. Similarly, the Council relies on the actuary to provide the pensions information that the Council uses.</p> <p>Furthermore, in respect of financial instruments, the Council uses treasury management advisors Link in respect of appropriate estimates around valuations.</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>Any significant estimates are already embedded within the current processes that the Council uses. Any new or emerging areas of estimates will be identified through reviewing the Code of Practice and at various CIPFA training sessions.</p> <p>In terms of experts, the Council's property valuers follow RICS guidance, and the Actuary will use specific guidance in respect of actuaries.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>In accordance with the annual accounts preparation and review process the accounting estimates used are reviewed for completeness.</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"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>In accordance with the annual accounts preparation and review process the accounting estimates used are reviewed for completeness by management,</p> <p>Any significant change to any accounting policy would be presented to the Committee for consideration. There have not been any significant changes in recent years, but going back further, the Committee was fully briefed on the change in accounting policies/estimates in relation to the changes to IFRS 9 - Financial Instruments and the implementation of IFRS in 2010.</p> <p>The Audit & Governance Committee gain overall assurance as part of the final account's presentation. Officers present the accounts to the A&G Committee before formal submission to the external auditors. This presentation talks about the key areas of estimation contained within the accounts such as asset and pensions valuation, respectively.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No transactions, events, conditions have given rise to recognition of significant accounting estimates requiring significant judgements.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes, the Council considers its arrangements to be reasonable.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>The audit & Governance Committee implicitly approves the accounting policies which contains the basis of the estimates therein, via approval of the Statement of Accounts. The Statement of Accounts is presented annually to The Audit & Governance Committee for consideration, challenge and comment, which include the Council's accounting policies and the use of estimates.</p> <p>In addition, some members of the Committee have had informal sessions on a number of key areas of accounts, with estimates being discussed in those sessions.</p> <p>Moving forwards, should Committee members require something more formal, then the Council will present the accounting policies and estimation methodology to Audit & Governance Committee for scrutiny.</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	<p>The Council uses a number of techniques in relation to PPE:</p> <p>Land & Buildings / Surplus – the top 100 assets in terms of value are reviewed every year to ensure that they remain current. There is also a rolling programme of assets that is also being followed, which picks roughly 20% of the asset base up (all values).</p> <p>AUC / Vehicles / Plant and Equipment / Intangibles – Held at depreciated historic cost.</p> <p>Assets Held for Sale - revalued annually</p>	<p>The estimates are from the valuers that use techniques in line with the RICS guidance.</p> <p>Any significant change to these assumptions / values is identified by the finance manager and discussed with the valuer.</p>	Yes – rely on internal RICS qualified valuers	<p>The valuations are based on a number of techniques that are robust and prescribed by the RICS guidance using an evidence base.</p> <p>For example, certain valuations are calculated based on market data on rental yields that is capitalised. Assets valued under depreciated replacement cost use appropriate indices around build costs over time.</p> <p>This mitigates the uncertainty somewhat by revaluing annually in effect.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations	Council dwellings revalued annually in line with RICS guidance and in line with the Code requirement of Social Housing Value.	As above	As above	<p>As above – Council dwellings are formally revalued once every 5 years using the beacon approach, This approach uses typical properties for a type of property e.g. number of bedrooms, where their value is applied to the similar properties in that beacon.</p> <p>In-between times, the valuation approach is to use comparable data that inform of the property value, whilst considering local factors and any specific economic events. This mitigates the uncertainty somewhat by revaluing annually in effect.</p>	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	<p>All assets that are subject to depreciation, are depreciated on a straight line basis.</p> <p>Estimates of asset lives relating to property related assets are provided by RICS qualified valuers in accordance with respective RICS guidance.</p> <p>In terms of dwellings, the dwellings are componentised to give a more accurate level of depreciation – with each component having an assumed useful life.</p> <p>Infrastructure – grouped in types such as roads, footways, signs, traffic management, structures and each has its own assumed useful lives.</p> <p>Vehicles, Plant and Equipment lives are assessed on a scheme by scheme basis, using previous intelligence as a guide. For specialist assets, appropriate officers are consulted for their view in terms of asset lives.</p>	As above	As above	<p>There is a degree of uncertainty and subjectivity but this is mitigated where possible, by RICS qualified surveyors providing a robust estimate of asset lives.</p> <p>For non property assets e.g. vehicles / infrastructure etc, appropriate professionals from that area provide the asset lives based on their expectations of how things tend to be used for.</p> <p>This mitigates the uncertainty somewhat by reviewing for any significant changes annually.</p>	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The estimates provided to the Council are calculated by professional actuaries which encompass such demographic assumptions such as mortality rates, expected future longevity etc, and financial assumptions such as inflation, pay growth and growth of pensions.	The Council provides an element of the inputs to the actuary, via SYPA, such as the membership numbers and in year contributions. This enables the actuary to provide the necessary estimate. The S151 also challenges the assumptions to ensure that they are robust.	Yes – Mercers, the fund actuary	The actuary provides a suite of sensitivity analysis in respect of changes to the key variables. The methodology and approach of the actuary ensures that respective actuarial standards are being met.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Expected credit loss model	The Council's finance team assess each long term loan in terms of the respective arrangements. The provision is based on the performance of the company, including whether loan repayments have been made etc. During the COVID 19 pandemic, there has been a more prudent approach of providing for 100% of outstanding balances due to the uncertainty in the economy. The only exception to this is where the Council has influence over repayments / default where this provision is not applicable.	Company performance data including any missed payments etc., economic outlook and impact on the company, general information about the company Judgement of S151 officer	No	The provision made is obviously based on an informed decision of the S151 officer, whilst considering all of the data / information. During and since the COVID 19 pandemic, the prudent view of the S151 Officer is to provide for 100% of the outstanding obligations, except with the companies that we can influence over to avoid default etc. The overall impact of any potential in terms of value is relatively immaterial.	No
Significant expenditure accruals	There are a number of methodologies and models used. For example, some are based on pro rata'ing, some are based on an estimate of past experience etc.	Some of the controls include analysis of the estimate with past experience / similar items. Also, detailed budget monitoring would highlight a requirement for an accrual, or where an accrual had been estimated differently to prior periods	No	In the main, the expenditure accruals that are taken are based on actual known events / obligations so no estimation techniques are required. The Council electronic goods ordering system processes the electronic creditors using an analysis of actual goods received versus invoices received – again little estimation required.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	The Council recognises a number of provisions – the largest being an insurance provision.	The Council has a system that logs all outstanding claims.	No	A judgement is undertaken by the Section 151 Officer in respect of the level of provision e.g. a % of outstanding claims is provided for on a prudent basis, reflecting historical settlements and prudent assumptions around the future.	No
Business rate appeal	Information is gathered from the council's current rating list, outstanding appeals lodged with the valuations office, local knowledge, past experience and the use of external advice	Valuation office reports	Yes – Valuation Office	An assessment is made based on a number of factors to determine certainty e.g. local knowledge and past experience. The accrual is updated regularly based on up to date information	No
Level 2 Financial Instruments	The valuation of the financial asset instruments is based on the respective company's financial position in terms of their balance sheet / share value with the Council's share of that company being reflected in the value In terms of liabilities, the Council relies on Link to provide the calculations on fair value.	Audited accounts of companies, performance of companies	No – assets Yes – liabilities – Link Asset Services	No judgement or subjectivity as significant balances are based purely on the audited accounts of the relevant companies. In terms of the scale of such investments, these do not represent a significant balance so the uncertainty is not a concern.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Liabilities under PFI schemes	<p>The liabilities relating to the Council's PFI schemes were derived from the individual contractor's operating models. They were initially calculated in line with the Code as the fair value of the assets less any capital contributions made by the Council. Since this time, an assumed element of the annual unitary charge on our PFI schemes has been reducing the liability over time.</p> <p>The fair values of such liabilities are presented in our accounts and these are derived by our TM advisors Link</p>	The initial recognition and subsequent entries to write the liability down was assessed by finance professionals, including the S151 officer to ensure compliance with the Code and that the estimates built in around service charges, implicit interest rate were reasonable.	Yes – Link Asset Services for the Fair Values	<p>Assumed split of Unitary Charge remains reasonable</p> <p>Assumptions used by Link include interest rate contained within the arrangements and the current rate of interest.</p> <p>Based on factual evidence so no scope for alternatives.</p>	No

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	The liabilities relating to the Council's finance leases are derived from the lease at inception. The required entries are derived from a lease model that splits the rental into principal and interest, based on the interest rate inherent in the lease.	Lease documentation and lease model.	Yes - Use lease advisors for lease document	Assumed split of lease rentals based on inherent lease rate – derived from lease model.	No



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